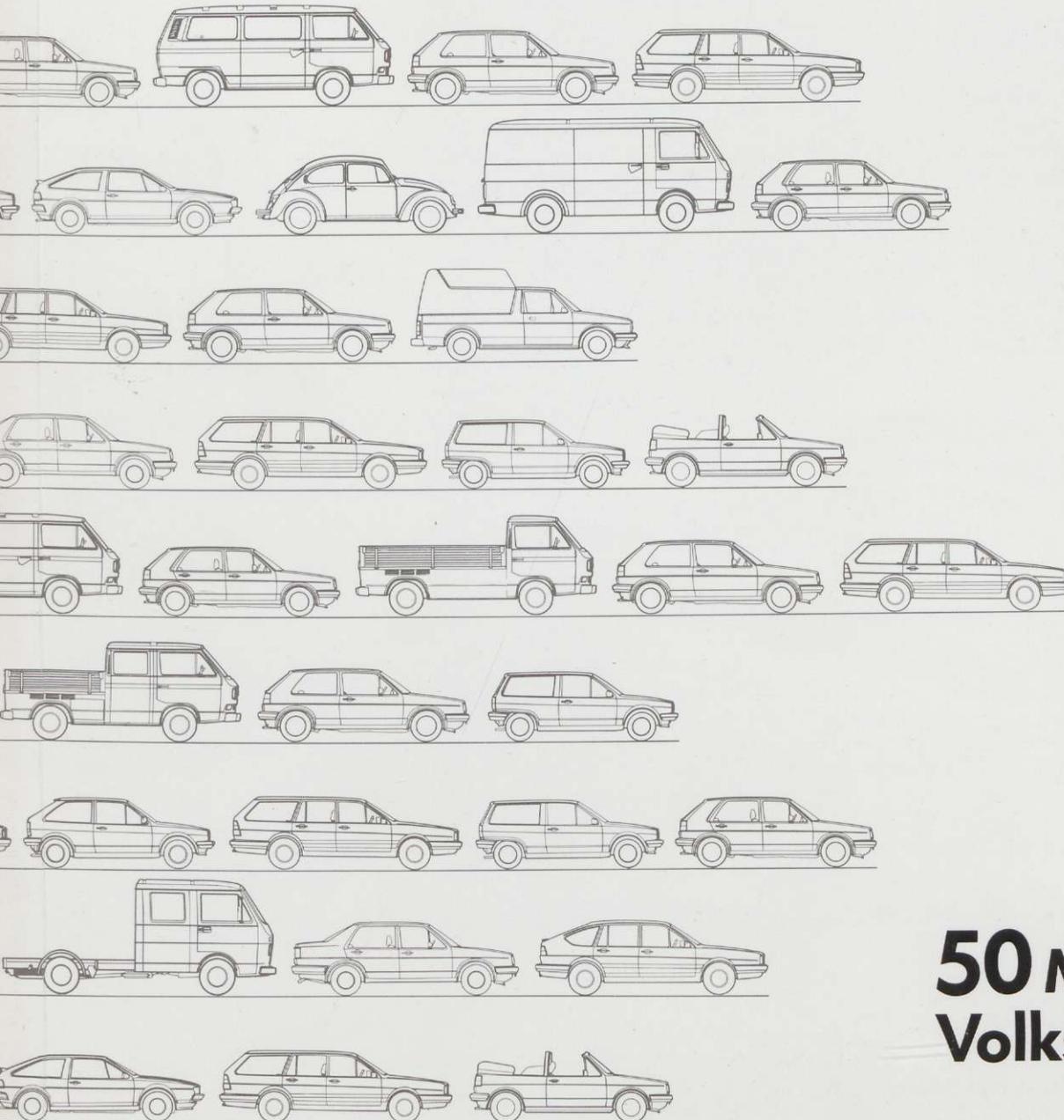




# VOLKSWAGEN AG

Annual Report  
1986

**Not for Publication  
before May 5, 1987**



**50 Million  
Volkswagens**

The Supervisory Board and the Board of Management of Volkswagen Aktiengesellschaft present the Annual Report 1986 with their compliments.

This version of our Annual Report is a translation from the German original. The German text is definitive.

Wolfsburg, May 1987

### Key Figures

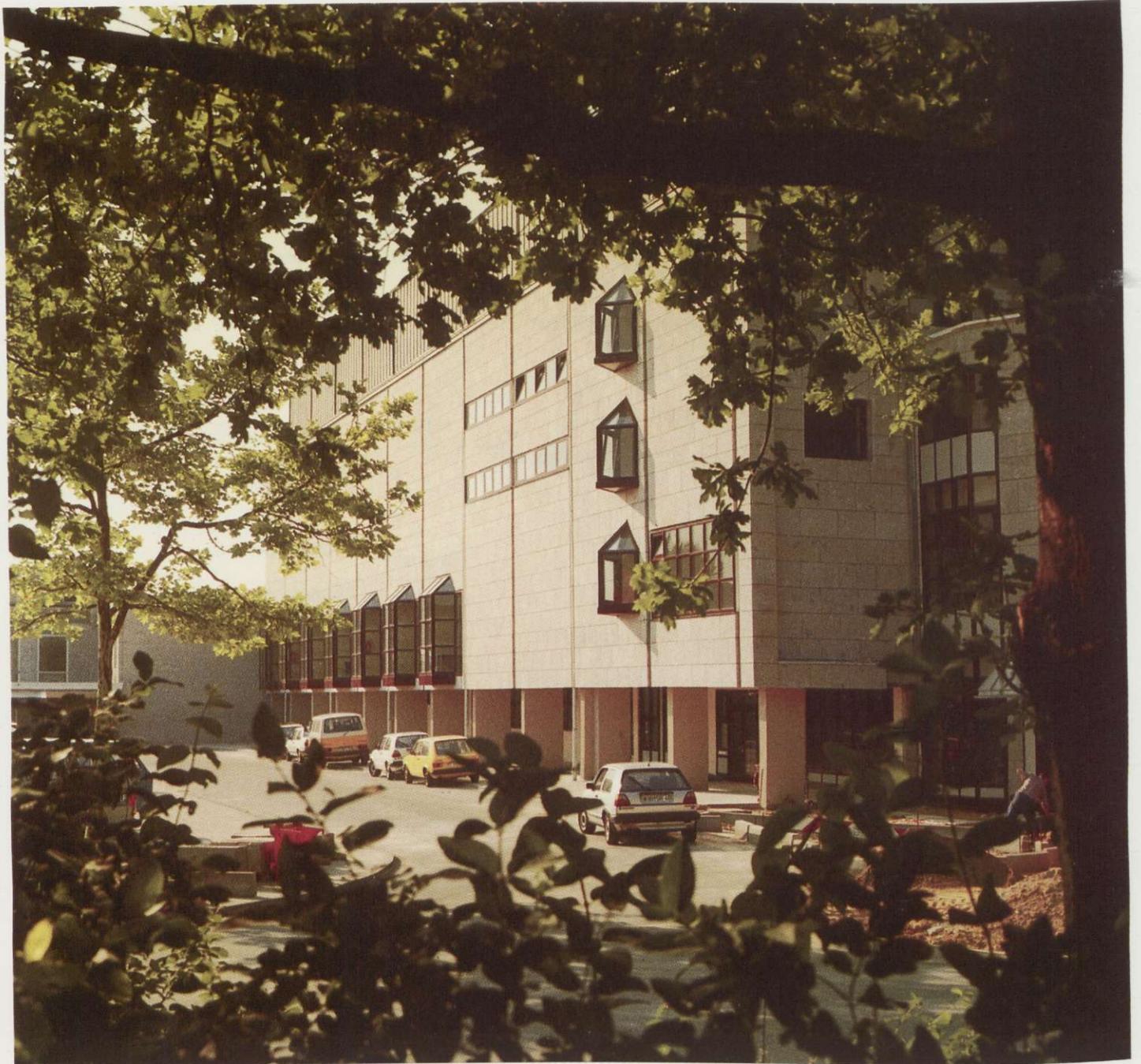
		Volkswagen Group			VOLKSWAGEN AG		
		1986	1985	Change %	1986	1985	Change %
Sales	DM million	52.794	52,502	+ 0.6	41.134	38,921	+ 5.7
Vehicle Sales	units	2.757.793	2,398,004	+ 15.0	1.926.652	1,817,208	+ 6.0
Production	units	2.776.554	2,398,196	+ 15.8	1.509.439	1,457,272	+ 3.6
Workforce	at year end	281.718	259,047	+ 8.8	132.188	123,598	+ 6.9
Capital Investments	DM million	6.366	3,388	+ 87.9	4.469	1,791	x
Additions to Leasing and Rental Assets	DM million	2.738	3,217	- 14.9	-	-	-
Cash Flow	DM million	4.285	4,558	- 6.0	2.527	2,889	- 12.5
Depreciation and Write-down	DM million	2.989	3,411	- 12.4	1.559	2,124	- 26.6
Depreciation on Leasing and Rental Assets	DM million	1.491	1,259	+ 18.5	-	-	-
Cost of Materials	DM million	28.656	26,623	+ 7.6	27.815	25,483	+ 9.1
Labour Cost	DM million	14.747	13,913	+ 6.0	8.736	7,901	+ 10.6
Net Earnings	DM million	580	596	- 2.6	485	477	+ 1.8
Dividend of Volkswagen AG	DM million				306	240	+ 27.5
of which on							
Ordinary Shares	DM million				240	240	-
Preference Shares	DM million				66	-	x

All percentages are based on non-rounded figures. Figures in brackets concern the previous year.

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*The new-look Wolfsburg  
Municipal Hall*



# Agenda

(Vorstand)

for the **Annual Meeting of Stockholders** of Volkswagen Aktiengesellschaft to be held at 10.00 a.m. on Thursday, July 2, 1987 at the Stadthalle in Wolfsburg

**1. Presentation of the confirmed financial statements for the year ended December 31, 1986**, the Annual Report for 1986 together with the report of the Supervisory Board, the proposal on appropriation of net earnings available for distribution, the consolidated financial statements for the year ended December 31, 1986 and the Annual Report of the Volkswagen Group for the fiscal year 1986

**2. Resolution on appropriation of net earnings available for distribution**

The Supervisory Board and the Board of Management propose that from the DM 307,105,905 net earnings available for distribution a dividend of DM 10 per DM 50 share be paid on the capital stock (ordinary shares) of DM 1,200,000,000, that is, DM 240,000,000. It is also proposed that a dividend of DM 11 per DM 50 preference share be paid on the preferential stock of DM 300,000,000, that is, DM 66,000,000.

The remainder and the amount which would be paid out on the treasury stock owned by the Company on the date of the Annual Meeting of Stockholders and which is precluded from distribution in accordance with § 71b of the German Corporation Law will be carried forward.

**3. Resolution on ratification of the actions of the Board of Management for the fiscal year 1986**

**4. Resolution on ratification of the actions of the Supervisory Board for the fiscal year 1986**

With respect to items 3 and 4, the Supervisory Board and the Board of Management recommend that their actions be formally ratified.

**5. Election of the Supervisory Board**

In accordance with § 102 of the German Corporation Law and § 11 subsection 2 of the Articles of Association of Volkswagen AG the period of office of the current members of the Supervisory Board expires at the end of the Annual Meeting of Stockholders on July 2, 1987.

The Supervisory Board consists of 20 members. In accordance with § 7 subsection 1 of the Co-determination Law, §§ 96 and 101 of the Corporation Law and § 11 of the Articles of Association of Volkswagen AG it is made up of 10 representatives of the stockholders and 10 representatives of the employees. In accordance with § 12 of the Articles of Association of Volkswagen AG in conjunction with § 101 subsection 2 of the Corporation Law, the Federal Republic of Germany and the State of Lower Saxony are each entitled to delegate 2 members to the Supervisory Board provided they hold shares in the Company.

The Annual Meeting of Stockholders must therefore elect 6 members to the Supervisory Board. It is not bound by any proposals.

The Supervisory Board proposes to the Annual Meeting of Stockholders that the following be elected to the Supervisory Board:

Dr. jur. F. Wilhelm Christians  
Düsseldorf  
Member of the Board of Management of Deutsche Bank AG

Hans-Günter Hoppe  
Berlin  
Former Member of the Berlin Senate

Walther Leisler Kiep  
Frankfurt  
Businessman (Insurance)

Dr. jur. Otto Graf Lambsdorff  
Düsseldorf  
President  
Deutsche Schutzvereinigung für Wertpapierbesitz e. V.  
(German stockholders' association)

Dr. jur. Klaus Liesen  
Essen  
Chairman of the Board of Management of Ruhrgas AG

Dr.-Ing. E. h. Günther Saßmannshausen  
Hanover  
Chairman of the Board of Management of Preussag AG

The period of office of all the members of the Supervisory Board extends until the end of the Annual Meeting of Stockholders which passes a resolution on the ratification of their actions for the fiscal year 1991.

**6. Appointment of auditors for the fiscal year 1987**

The Supervisory Board proposes that TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover, be appointed auditors for the fiscal year 1987.

# Supervisory Board (Aufsichtsrat)

Karl Gustaf Ratjen (67), Frankfurt  
Chairman (since November 16, 1979)  
Lawyer  
October 31, 1975\*)

Hans Mayr (65), Frankfurt  
Deputy Chairman (since April 11, 1984)  
Former Chairman of the Metalworkers  
Union  
February 10, 1984

Birgit Breuel (49), Hanover  
Minister of Finance of Lower Saxony  
October 10, 1978

Dr. jur. F. Wilhelm Christians (64)  
Düsseldorf  
Member of the Board of Management  
of Deutsche Bank AG  
July 12, 1971

Dr. rer. pol. Hans Friderichs (55)  
Frankfurt  
Former Federal Minister  
March 24, 1981

Walter Hiller (54), Wolfsburg  
Chairman of Joint Works Council of  
Volkswagen AG  
April 9, 1986

Walter Hirche (46), Hanover  
Minister for Economic Affairs, Technol-  
ogy and Transport of Lower Saxony  
September 18, 1986

Albert Hoffmeister (58), Wolfsburg  
Senior Executive of Volkswagen AG  
July 5, 1977

Hans-Günter Hoppe (64), Berlin  
Former Member of the Berlin Senate  
July 9, 1974

Jann-Peter Janssen (42), Norden  
Chairman of Works Council of  
Volkswagen AG  
Emden Plant  
April 9, 1986

Walther Leisler Kiep (61), Frankfurt  
Businessman (Insurance)  
from March 3, 1976 to July 1, 1982  
and since January 26, 1983

Helmut Kramer (55), Frankfurt  
Trade Union Secretary to the  
Executive Committee of the  
Metalworkers Union  
May 14, 1986

Klaus Peter Mander (44), Wolfsburg  
Deputy Chairman  
of Joint Works Council of  
Volkswagen AG  
March 25, 1985

Hans L. Merkle (74), Stuttgart  
Chairman of the Supervisory Board  
of Robert Bosch GmbH  
July 9, 1974

Karl Heinrich Mihr (51), Kassel  
Chairman of Works Council of  
Volkswagen AG  
Kassel Plant  
November 27, 1972

Gerhard Mogwitz (53), Hanover  
Chairman of Works Council of  
Volkswagen AG  
Hanover Plant  
July 5, 1977

Walter Neuert (61), Ingolstadt  
Chairman of Joint Works Council  
of AUDI AG  
July 5, 1977

Dr. rer. pol. Otto Schlecht (61)  
Bonn-Duisdorf  
Undersecretary of State in the Federal  
Ministry for Economic Affairs  
August 3, 1973

Toni Schmücker (65)  
Bergisch Gladbach  
Former Chairman of the Board  
of Management  
of Volkswagen AG  
July 1, 1982

Dr. rer. pol. Albert Schunk (45)  
Frankfurt  
Trade Union Secretary to the Executive  
Committee of the Metalworkers Union  
July 5, 1977

## Changes on the Supervisory Board:

Siegfried Ehlers (61), Wolfsburg  
Chairman of Group Works Council  
of Volkswagen AG  
October 10, 1958  
† March 6, 1986

Gerd Kühl (64), Frankfurt  
Trade Union Secretary to the Executive  
Committee of the Metalworkers Union  
from July 5, 1977 to April 30, 1986

Heinz Pabst (54), Brunswick  
Chairman of Works Council of  
Volkswagen AG  
Brunswick Plant  
July 1, 1982  
† February 21, 1986

Dr. agr. Burkhard Ritz (55)  
Hanover  
Minister of Food, Agriculture  
and Forestry of Lower Saxony  
from July 1, 1982 to September 18, 1986

\*) This date indicates in each case since when the person has been a member of the Supervisory Board.

# Board of Management (Vorstand)

Dr. rer. pol. Carl H. Hahn (60)

Chairman

(since January 1, 1982)

Member of the Board of Management  
from May 1, 1964

to December 31, 1972

Senator h. c. Horst Münzner (62)

Deputy Chairman

(since January 1, 1982)

Purchasing and Logistics

Member of the Board of Management  
since January 1, 1969

Claus Borgward (48)

Quality Assurance

April 11, 1980

Karl-Heinz Briam (64)

Personnel and Social Matters  
(Director of Labour Relations)

October 1, 1978

Prof. Dr. techn. Ernst Fiala (58)

Research and Development

February 1, 1973

Dr. jur. Peter Frerk (56)

Legal matters, Auditing and  
Economics

December 7, 1971

Dr. jur. Wolfgang R. Habbel (63)

AUDI AG

January 1, 1979

Dr.-Ing. E. h. Günter Hartwich (51)

Production

July 1, 1972

Dr. rer. pol. Werner P. Schmidt (54)

Sales

August 1, 1975

## **Resigned from the Board of Management:**

Dr. rer. pol. Rolf Selowsky (56)

Finance and Business Administration

from May 6, 1982 to March 13, 1987

# Report of the Supervisory Board

The Board of Management has provided the Supervisory Board with full regular reports about the situation of the Company, the business trend and proposed corporate policy. Measures requiring the Supervisory Board's prior approval by law or under the Company's Articles of Association were discussed in detail at meetings of the Supervisory Board and its committees prior to resolutions being passed. Based on the written and oral reporting by the Board of Management the Supervisory Board has been able to constantly monitor management.

The Supervisory Board was informed by the Board of Management that Volkswagen AG had been deceived and suffered considerable damage in connection with currency transactions. The public prosecutor's office in Brunswick was called in to deal with the matter. Provisions were made in the financial statements of Volkswagen AG to cover the losses which have been incurred. On account of the magnitude of this occurrence Dr. Rolf Selowsky accepted managerial responsibility. He relinquished his office as member of the Board of Management of Volkswagen AG with effect from March 13, 1987 and requested the consent of the Supervisory Board. The Supervisory Board accepted the resignation of Dr. Selowsky.

In view of these occurrences the Supervisory Board and the Board of Management have decided, in addition to the steps already taken, to commission a further report from another firm of auditors.

The financial statements for the Group and Volkswagen AG as at December 31, 1986 along with the Annual Report and the accounts have been audited and approved without qualification by TREUARBEIT Aktiengesellschaft Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Hanover. The Supervisory Board has been informed about the results of the audit.

The financial statements and the Annual Report were submitted to the Supervisory Board. Its audit of the financial statements of Volkswagen AG, the Annual Report and the proposal concerning appropriation of net earnings available for distribution resulted in no objections. The consolidated financial statements as at December 31, 1986 were received and accepted by the Supervisory Board.

The Supervisory Board agrees with the results of the audit performed by the auditors and approves the financial statements, which are thus confirmed. It approves the proposal put forward by the Board of Management regarding appropriation of net earnings available for distribution.

On April 30, 1986 Herr Gerd Kühl ceased being a member of the Supervisory Board. He was succeeded on May 14, 1986 by Herr Helmut Kramer who was duly appointed by Wolfsburg District Court.

As a representative of the State of Lower Saxony, Herr Walter Hirche, Lower Saxony Minister for Economic Affairs, Technology and Transport, has become a member of the Supervisory Board as of September 18, 1986 to replace Dr. Burkhard Ritz, Lower Saxony Minister of Food, Agriculture and Forestry, in accordance with Art. 12 of the Articles of Association of Volkswagen AG. The Supervisory Board would like to express its gratitude to Herr Kühl and Dr. Ritz for their sense of devotion to this body.

Herr Heinz Pabst, member of the Supervisory Board and Chairman of the Works Council at the Brunswick plant of Volkswagen AG, died on February 21, 1986. We have lost a personality who has done a great service to Volkswagen AG and its staff with an indefatigable sense of commitment.

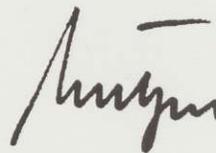
The Chairman of the Group and Joint Works Council of Volkswagen AG, Siegfried Ehlers, passed away on March 6, 1986 having held office for many years. He had been a member of the Company's Supervisory Board since 1958. The Volkswagen Group has thus lost one of its outstanding personalities who has represented staff interests successfully for decades with exemplary awareness of responsibility and a marked sense of reality.

Herr Walter Hiller and Herr Jann-Peter Janssen were appointed by Wolfsburg District Court to succeed the deceased members on the Supervisory Board of Volkswagen AG as of April 9, 1986.

Prof. Dr. Eduard Justi died on December 16, 1986 at the age of 83. He had been a member of the Supervisory Board of Volkswagen AG from 1963 to 1971. During his period of office he used his extensive knowledge and experience to support the work being performed by this body.

We shall treasure the memory of the deceased.

Wolfsburg, April 9, 1987



Karl Gustaf Ratjen

Chairman of the Supervisory Board

# Report of the Board of Management

## Review

### Still growth on the world economy

The economic trend in the Western industrialised countries benefitted in 1986 from the decline in prices for oil and other raw materials. The upturn in prices tended to level out and interest rates fell to the same level as 1978. However, all in all the economic recovery was less than expected because the rate of growth slowed down in some major economies. The rise in the gross national product in all the OECD countries amounted to 2.5% in real terms, whilst world trade expanded at the same time by 4.0% (3.0% in 1985).

In the United States economic growth was slightly below the previous year's level. Structural difficulties with American foreign trade continued in 1986, despite the low level of the exchange rate for the dollar. Moreover, imports also rose considerably, particularly from Europe and Japan. The high balance of trade deficit of the USA rose to US \$ 175 (1985: 148) billion owing to the increase in imports and stagnation in exports (US \$ 124 billion in 1985). The political and economic tension resulting from this imbalance manifested itself in an increase in pressure for protectionism.

In 1986 the Japanese economy was dampened by the consequences of the considerable rise in the value of the yen against the dollar. Domestic demand was unable to fully compensate for the drop in the exports in real terms so industrial output tended to stagnate. Nevertheless, there was a nominal record balance of trade surplus amounting to 83 billion dollars. Trade with the USA accounted for 52 billion dollars and trade with the European Community 17 billion dollars.

In the light of constant growth the economic trend in the Federal Republic of Germany was again positive in 1986 and characterised by a shift in economic impetus from foreign demand to domestic demand. With an increase in gross national product of 2.4% in real terms economic performance has improved by about 10% since the trough of the recession at the end of 1982. Investment in capital goods saw a positive trend and so too did private consumption, which benefitted particularly

from the high price stability and the first stage of the tax reform. The cost of living taken as an annual average was 0.2% below that of the previous year, especially as a result of the extreme decline in the cost of oil imports. In the field of exports, the USA, which had been the main exporting country in the world, was overtaken by the Federal Republic of Germany.

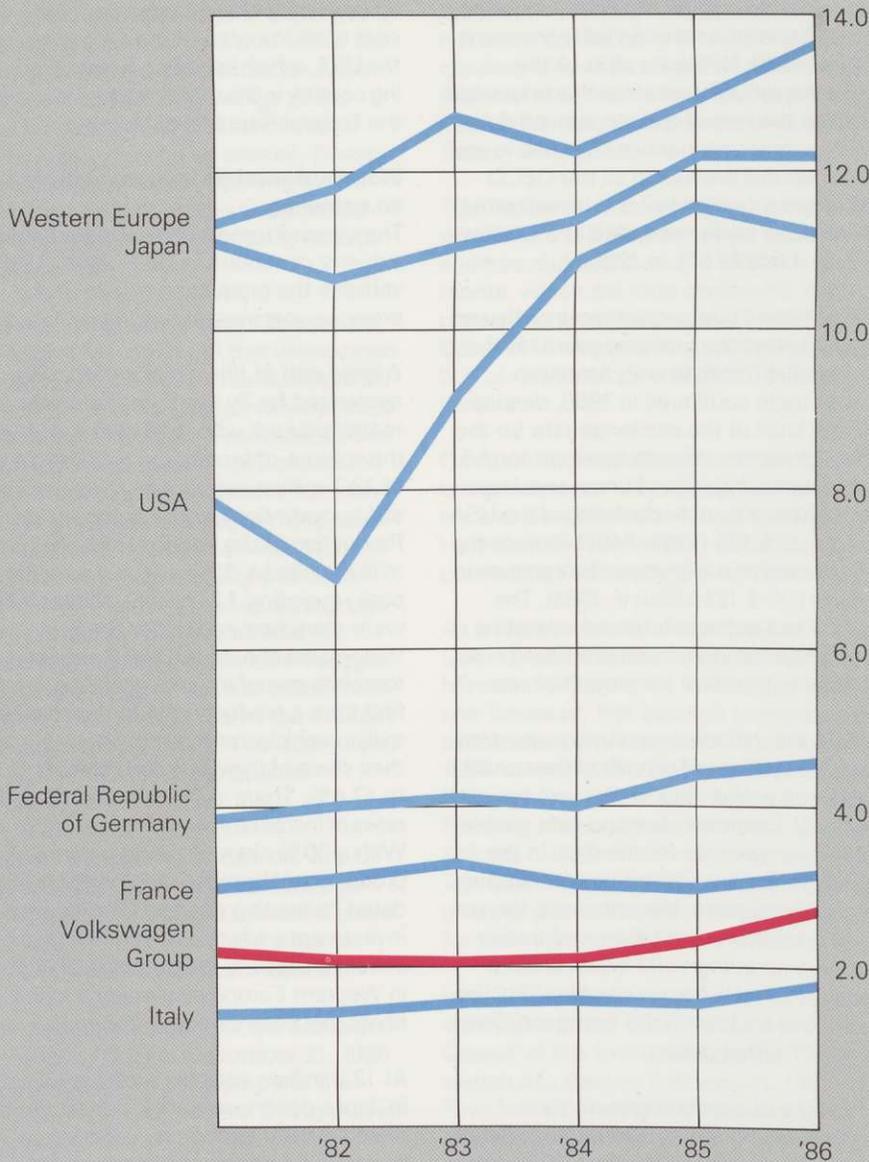
### World automobile industry still showing an upswing

The upward trend in the world automobile industry continued in 1986. At 45.4 million vehicles the production record of the previous year was exceeded by 1%.

A large part of this development was accounted for by the West European manufacturers who managed to increase the volume of production by 6% to a total of 13.7 million vehicles as a result of the still buoyant demand for automobiles. Production in the Federal Republic hit 4.6 million units (+ 3%), which was a new peak. Including 1.5 million vehicles which were manufactured under German trademarks abroad in 1986 German automobile manufacturers achieved for the first time a production output of over 6 million vehicles and an improvement in their share of the world market from 13.0% to 13.4%. There were also considerable rates of increase in Italy, France and Spain. With a 30% share in world automobile production Western Europe has consolidated its leading position. Through the investments which became necessary to increase capacity the automobile industry in Western Europe also made a major economic contribution in this region.

At 12.3 million vehicles production output in Japan continued at the high level of the previous year. Exports by Japanese automobile producers declined in 1986 because of the high exchange rate of the yen. There were drops in sales particularly in China, South-East Asia and in the Middle East, whilst exports to the USA and to Europe showed a rise. If one also takes into account the exported sets of vehicle components the growth rate for the Japanese automobile industry would be over 2%.

**Development of production in the automobile industry**  
(million vehicles)



In the United States automobile production in 1986 was 3% short of the high previous year's level. In all, 11.3 million vehicles rolled off the production lines of US manufacturers, of which 7.8 million were passenger cars and 3.5 million commercial vehicles.

**Structural shift and repositioning within the Volkswagen Group**

In the centenary year of the automobile the Volkswagen Group boosted its efforts to maintain competitiveness in the international markets. In 1986 strategic measures were introduced to adjust structure and to eliminate weak points in the Group, something which has scarcely occurred to such an extent throughout the relatively short history of the Company.

With effect from June 18, 1986, Volkswagen AG took over 51% of the shares in Sociedad Española de Automóviles de Turismo, S.A. In accordance with the contractual possibilities there was a transfer of another 24% of capital stock at the end of 1986 so Volkswagen AG now holds 75% of the capital stock of SEAT S.A. The company was included in the scope of consolidation as at December 31, 1986. The commitment to SEAT is designed to stabilise the leading position of the Volkswagen Group in Europe in the long term.

Apart from the 75% investment in SEAT there were further major changes within the Group in 1986. When the shares in TA TRIUMPH-ADLER AG and substantial parts of Triumph-Adler North America (TANA) and consolidated companies, which were held by the Volkswagen Group, were transferred to Olivetti Holding B.V., Amsterdam, TA TRIUMPH-ADLER AG and parts of TANA and consolidated companies left the scope of consolidation as of September 1, 1986. The North American companies in the Group remaining with Volkswagen were merged under the name of Pertec Systems, Inc. In return for the sale, Volkswagen AG acquired a 5% share in the voting capital stock of Ing. C. Olivetti & C., S.p.A., Ivrea.



Visit of H.E. the President of the  
Italian Republic, Francesco Cossiga,  
to Wolfsburg on 25th April, 1986

This reorganisation reinforces the base of the Volkswagen Group and, at the same time, signifies concentration on customary automobile business again. The change in Group structure means that the figures contained in the Annual Report are difficult to compare with those of the previous year.

Further strategic measures have also been implemented in other regions where the Volkswagen Group operates in order to secure markets in the long run. Corporate activities focussed particularly on the Latin American subsidiaries which are still having to operate under extremely serious general economic conditions.

The transfer of pressed components production from Volkswagen of America's South Charleston plant to Mexico was introduced in order to cut costs and to reinforce the position of Volkswagen de Mexico.

#### **Collaboration with Ford in Argentina and Brazil**

Group strategy in these countries was redefined. Aiming at securing our future in an expansive manner and simultaneously restricting the risks involved in South American commitments it was found to be worth considering collaboration with a strong colleague. This colleague turned out to be the Ford Motor Company, Dearborn. Steps have been taken to set up joint ventures in Argentina and Brazil. The Supervisory Boards of both companies have given the project their general approval.

As soon as the current negotiations are completed we are planning to sign the corresponding agreement in summer 1987 and to set up a joint holding company in Brazil. This will then proceed to control the activities of Volkswagen do Brasil S.A. and Ford Brasil S.A. as still legally independent corporate units. In addition, we intend to merge the Argentinian subsidiary Volkswagen Argentina S.A. with Ford Motor Argentina S.A. This corporate unit will also be managed by the joint holding company in Brazil.

The collaboration enterprise in Argentina and Brazil will bear the name of "AUTO-LATINA". The Volkswagen share will be 51% and the company will be managed jointly with equal rights for both parties.

The identity and the image of the Volkswagen and Ford brands will be separated as distinctly as before. Sales, after-sales service and maintenance of Volkswagen and Ford products will continue via separate marketing organisations and dealer networks on the basis of separate product ranges.

The crucial aims of the joint venture are to achieve a greater return on investment by improving the utilisation of production facilities and to reinforce the market positions of both makes.

#### **Change in the structure of distribution**

In the Federal Republic of Germany measures were introduced to restructure the sales organisation. As of January 1, 1989 Volkswagen AG will take over domestic vehicle sales along with the respective advisory and after-sales roles in direct collaboration with the dealers. The introduction of the direct dealer system is aimed at using market opportunities more efficiently despite the competitive conditions, which are likely to become more difficult in future. This will result in closer contact between customers and the Company and direct relations with retailers.

Wholesale business for the Volkswagen Group in the Federal Republic of Germany is currently performed by 12 V.A.G sales centers. Volkswagen AG holds a 81.3% share in WESER-EMS Vertriebsgesellschaft mbH Bremen, and a 26% share in each of the other sales centers. The legal and economic basis for collaboration is provided by the memorandums of association and general agency agreements concluded between Volkswagen AG and the sales centers. Under the reorganisation of wholesaling the sales centers will maintain their roles in after-sales service and spare parts on the same basis as to date.

#### **Opening up new markets**

With respect to securing the future of the

Volkswagen Group our presence in potential growth markets has also been increased in 1986. Apart from China, where Volkswagen has been collaborating with local firms since 1985 in the hitherto most important and largest joint venture in Chinese mechanical engineering, there are also the Comecon countries. Now that a first step has been taken by initiating the engine project in East Germany, a general agreement was signed with Hungary in 1986 which provides for a broadening of existing supply links.

#### **Increases in unit sales in Germany and abroad**

The Volkswagen Group had its due share of the expansion seen in the automobile industry and managed to once again considerably improve on its previous year's figures, despite the increasingly difficult competitive situation internationally.

Including the SEAT models, worldwide sales by the Volkswagen Group to the dealer organisation came to 2,757,793 vehicles and therefore exceeded the previous year's figure by 15.0%. Volkswagen AG sold a total of 1,926,652 Volkswagen and Audi models (+ 6.0%).

The good response in Germany and abroad is a clear indication of the success of our efforts to constantly improve the technological and qualitative competitiveness of the product range.

#### **Deliveries to customers at record level**

During the past year the Volkswagen Group delivered 2,542,621 Volkswagen and Audi models to customers worldwide (+ 5.1%) and sales of SEAT models came to 222,006. Deliveries by the Volkswagen Group in its new form amounted to 2,764,627 units, of which 2,522,909 were passenger cars and 241,818 were commercial vehicles.

The key factor in the increase was the partially considerable rises in sales in the Federal Republic of Germany, in Brazil (only in the first 6 months though) and in the European foreign markets which considerably exceeded the losses sustained in North America and Mexico.

*AUTOLATINA – currently  
the biggest joint venture  
in Latin America*

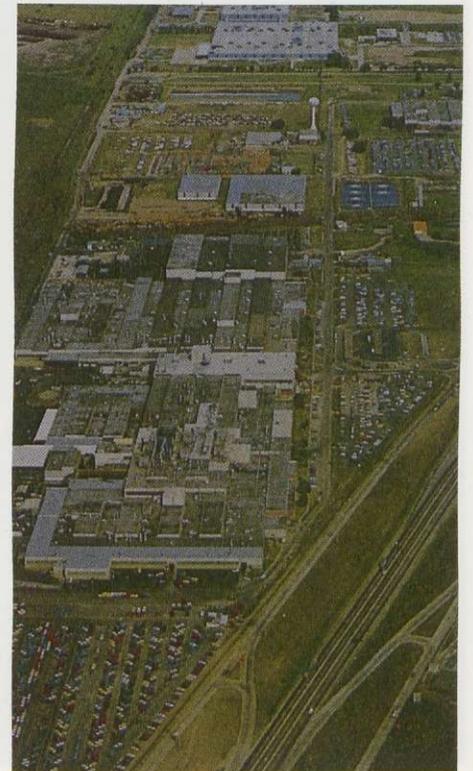
*Administration block AUTOLATINA*



*Volkswagen Argentina*



*Volkswagen do Brasil*

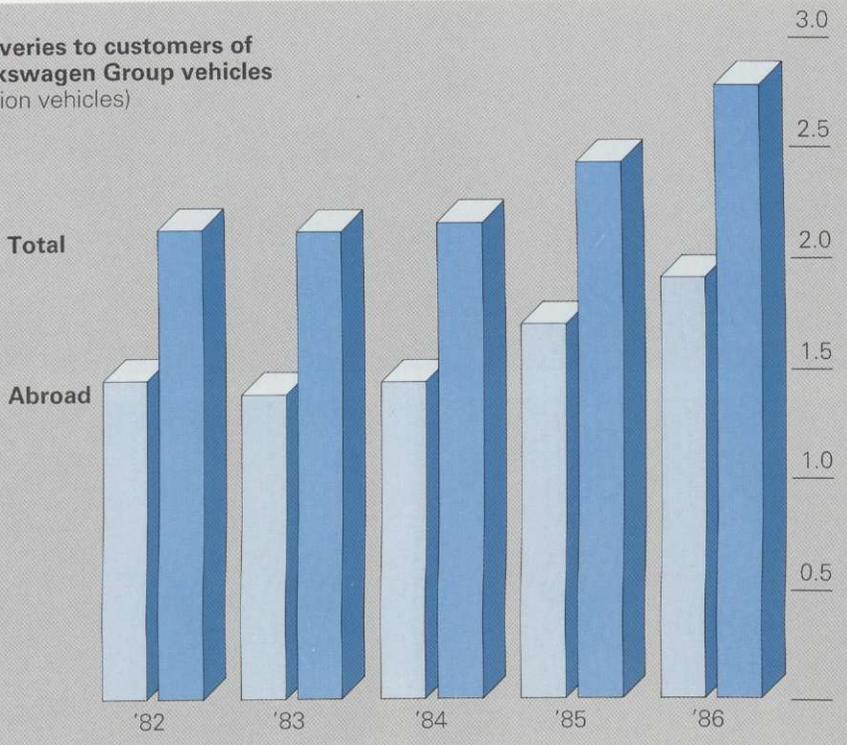


*Ford Motor Argentina*



*Ford Brasil*

**Deliveries to customers of Volkswagen Group vehicles**  
(million vehicles)



In the region for which it is responsible, Volkswagen AG achieved a 4.0% rise in sales, accounting for 2,151,168 Group vehicles including the Audi models.

**West German manufacturers working to capacity**

Automobile business in the Federal Republic of Germany benefitted from a substantial recovery in domestic demand in 1986, which was also enhanced by the fact that the catalytic converter became more popular. The number of new passenger cars registered came to 2.7 million vehicles, which was 18.9% up on the previous year (a figure which was impaired by the controversy over exhaust emissions though) and thus achieved a new peak. Domestic manufacturers, with the exception of Volkswagen, failed to take a due share in the expansion of the overall passenger car market, in some cases owing to supply bottlenecks. At the same time, foreign suppliers increased their sales disproportionately, which led to their vehicles showing a 30.7% increase on first registrations during the previous year, thus enabling to improve their market share and achieve 28.7% (26.1%).

The share accounted for by new low-pollution vehicles being registered showed a constant increase in 1986. Of the passenger cars newly registered in West Germany, 56% were fitted with low-pollution engines. Half of them were diesel vehicles. Against a background of the phasing out of full tax exemption for new low-pollution vehicles on December 31, 1986, there has been an increase in demand for catalytic converter cars since September.

In the light of economic recovery, registrations of commercial vehicles in the Federal Republic of Germany rose by 11.9% to 243,621 units. The percentage growth in the sales of heavy commercial vehicles was 6.9%, which was less than for the light trucks up to a maximum gross weight of 6 tonnes, which showed an increase of 13.3%.



*The classic Golf – foundation  
of a new vehicle class*



*The new Audi 80 sets standards  
in its class*

*Available - 1987 models only  
in the light of current regulations. Price  
of approximately \$20,000. For further  
information, call 1-800-828-8282 or  
214-761-1111. The percentage shown is  
the ratio of body components which  
are not in which are made by the  
the industry to approximately 10% weight  
of 100%, which is a significant increase  
of 10%.*

### **Market position in West Germany stabilised**

The excellent climate in the domestic automobile market was again reflected in the sales figures of the Volkswagen Group for the year under report. Deliveries of Volkswagen and Audi vehicles to customers showed a 17.5% increase on the previous year and totalled 858,089 automobiles. The market share accounted for by passenger cars remained at 28.6%, and the share accounted for by Volkswagen came to 23.1% (22.9%). The success was due to sales in all model series without exception. Demand for the Golf was still substantial; at 376,527 deliveries to customers it alone surpassed the level of all new Japanese passenger car registrations and was still unable to fully satisfy demand. Compared with the previous year it therefore further improved on its leading position in West German sales statistics, a position which it has occupied since 1975. The Polo (+ 24.3%) and the Passat (+ 12.5%) were also very well placed.

Sales of Audi vehicles rose by 12.4%. However, the increase was less than the expansion in the domestic passenger car market so the Audi market share dropped from 5.7% to 5.5%. Deliveries of the new Audi 80 to customers saw a pleasing trend and since its launch in September 1986 this vehicle has even surpassed the high expectations made of it. There were also sales increases for the Audi 100 (+ 13.2%). In the Federal Republic of Germany sales of vehicles in the SEAT model series totalled 5,445.

The market popularity of the constant additions to the range of low-pollution automobiles is reflected in their large share of total orders received by the Volkswagen Group in West Germany. Apart from the diesel vehicles there was also greater demand for the models with catalytic converter during the second six months of the year. With the 28.5% share in the overall number of new passenger cars registered having low-pollution engines the Volkswagen Group was market leader in the Federal Republic of Germany.

In the commercial vehicles business the positive trend of the previous year also continued. In the competition sector up to a maximum gross weight of 6 tonnes, registrations of Group vehicles rose by 11.0% to 62,178 vehicles. This meant that Volkswagen managed to keep pace with the expansion of the market and by far maintain its leading position in this market segment by accounting for a share of 40.7% (40.8%).

Despite great efforts, capacity-related supply bottlenecks continued through to the end of the year so the sales result constitutes only an inadequate reflection of the strong competitive position of the Volkswagen Group.

### **Leading position in Europe maintained**

In other European countries the Volkswagen Group was able to use market opportunities to full advantage and increase sales of Volkswagen and Audi vehicles to customers again by 3.1% to 782,494 vehicles, compared with the previous year's record level. Volkswagen sales rose by 4.4% whilst deliveries of Audi models to customers were 3.3% down on those of the previous year. Another 198,400 SEAT automobiles were sold in Europe outside the Federal Republic of Germany.

There were sales increases in virtually all the regions, whereby the major buyer countries were still Italy, France and Britain, which each accounted for a sales volume of more than 120,000 units.

In Europe, including the Federal Republic of Germany, Volkswagen and Audi vehicles delivered to customers came to 1,640,583 (+ 10.1%). This meant that, even if the SEAT vehicles are not included, we were again market leader, whilst the Golf was able to successfully maintain its position as the automobile with the highest sales of all. Including the SEAT models the passenger car market share accounted for by the Volkswagen Group in Europe amounted to 14.7%.

### Various trends observed overseas

On the North American continent in 1986 there was again a rise in demand for passenger cars, an improvement on what was already a high level; at the same time competition was keener. The Volkswagen Group, which achieved a delivery volume of 320,191 vehicles, was 5.5% short of the previous year's figure, which was particularly due to the drop in Audi sales. The trend in unit sales throughout the year was also affected by price increases caused by changes in exchange rates.

In the Mexican automobile market, unit sales stabilised at a low level in May 1986. This was mainly due to the sales campaigns introduced by all the vehicle manufacturers. Owing to the considerable drop in demand at the beginning of the year, by which all our competitors were affected, deliveries by Volkswagen de Mexico to customers were 25.4% down on the previous year's level.

The Group's 10.4% rise in passenger car sales in Argentina was in line with the overall passenger car market, which surpassed the very low previous year's volume by 10.7%.

In Brazil during the first six months of 1986 there was an artificial increase in demand owing to the government's introduction of an economic programme and Volkswagen do Brasil participated to an above-average extent. Considerable sales increases both in the passenger car sector and in the commercial vehicle sector led to an 18.2% increase in domestic deliveries compared with 1985.

Automobile business in South Africa was once again badly affected by the drop in the value of the rand. Despite the difficult general political and economic conditions, Volkswagen of South Africa managed to successfully improve on its market position in a dwindling overall passenger car market as a result of continuing buoyant demand for the Jetta.

### Exchange rate trend dampens sales

Volkswagen Group sales during the year under report came to DM 52.8 billion, including SEAT S.A. in the scope of consolidation for the first time, and thus surpassed the previous year's high level by 0.6%. In drawing a comparison with the previous year one must, on the other hand, take into consideration the fact that the sales achieved by the TA Triumph-Adler group and Triumph-Adler North America after their leaving the scope of consolidation on August 31, 1986 are no longer included in Group sales.

In domestic sales there was a considerable rise of 16.5% to DM 18.8 billion owing to the positive situation in the automobile sector and the continuing trend towards more upmarket models. Abroad, sales fell by 6.5% to DM 34.0 billion despite good unit sales figures in Brazil and in other European countries. The chief factor was the low value of the dollar, which affected translation of all dollar-oriented currencies and thus the sales in Latin America. The share of Group sales accounted for by

foreign countries therefore fell from 69.2% to 64.3%.

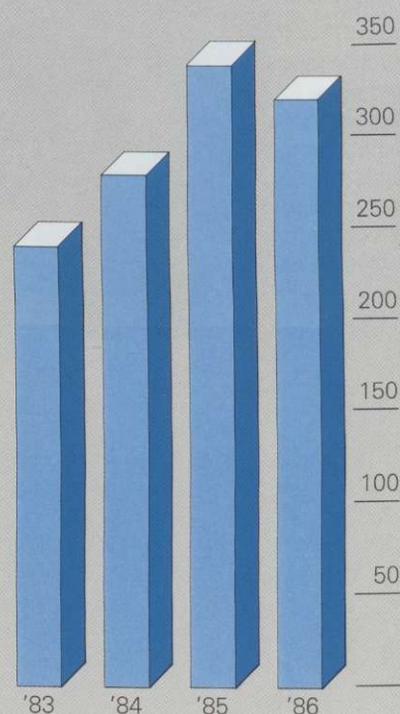
The rise in sales at Volkswagen AG by 5.7% to DM 41.1 billion was particularly due to the increase in domestic unit sales. The share accounted for by foreign sales amounted to 55.8% (59.7%).

### Record level of investment

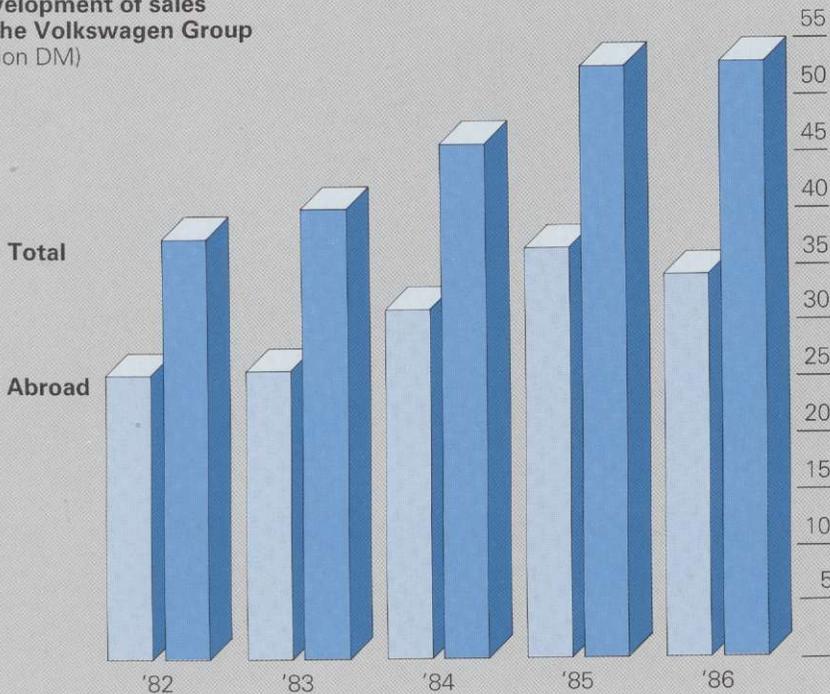
To maintain and improve on the position of the Volkswagen Group in the face of worldwide competition, the already high level of investment was once again increased. The main emphasis was on improving, developing further and adding to the range of products and optimising the manufacturing process.

During the past fiscal year the Volkswagen Group invested a record total of DM 6,366 million and thus exceeded the already high previous year's level by 87.9%. Property, plant and equipment accounted for DM 5,027 million and financial investments accounted for DM 1,339 million. In West Germany investments totalled DM 3,849

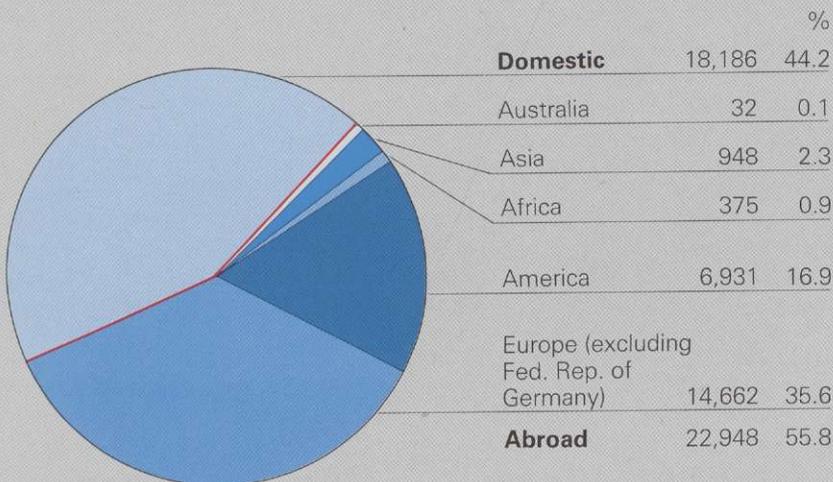
**Deliveries to customers of Volkswagen Group vehicles in North America**  
(thousand vehicles)



**Development of sales of the Volkswagen Group**  
(billion DM)



**Regional breakdown of the sales of Volkswagen AG for 1986 (million DM)**



million and abroad they amounted to DM 2,517 million. The additions to leasing and rental assets, which are no longer shown as investments, totalled DM 2,738 million.

The considerable efforts made by Volkswagen AG to improve competitiveness led to an increase in investments to DM 4,469 (1,791) million. Increases on the previous year were to be seen both in property, plant and equipment at DM 2,282 (1,366) million as well as in financial investments at DM 2,187 (425) million. A major part of investment in fixed assets was due to the development of new models and to the extension and modernisation of domestic production plants. Financial investments were particularly affected by the majority takeover of SEAT S.A., the 5% investment in the capital stock of Olivetti and contributions to the capital of subsidiaries.

#### Expansion in production

Including the SEAT vehicles, production rose by 15.8% to 2,776,554 units. The Volkswagen Group thus successfully defended the position it achieved for the first time in 1955 as Europe's largest automobile manufacturer and simultaneously moved up into fourth position among world passenger car manufacturers, a position which it had last occupied in 1980. Worldwide the Group manufactured 2,526,974 passenger cars (+ 15.9%) and 249,580 commercial vehicles (+ 14.2%). Output per working day rose by 12.6% to 11,869 vehicles.

Production by the foreign subsidiaries amounted to 1,123,061 automobiles and thus exceeded the previous year's level by 47.3%. There were considerable rates of increase in Brazil (+ 8.4%), Belgium (+ 14.2%), South Africa (+ 29.0%) and Argentina (+ 15.2%), whilst production in Mexico (- 27.0%) and in the USA (- 13.2%) were down on the previous year. In West Germany, production was increased by 1.1% to 1,653,493 Volkswagen and Audi vehicles. Domestic production of assemblies and parts showed an above-average increase, particularly in order to supply SEAT and Volkswagen Bruxelles.

The Group manufactured the following numbers of each model:

Passenger cars			Commercial vehicles			Average production per working day for the individual Group companies was:	Vehicles per day
	1986	1985		1986	1985		
Golf	876,772	777,547	Commercial	161,712	155,423	VOLKSWAGEN AG <sup>1)</sup>	5,431
Passat	351,639	314,081	Heavy van (LT)	20,825	21,714	Volkswagen do Brasil <sup>1)</sup>	1,579
Jetta	274,627	258,180	Volkswagen-			AUDI AG <sup>1)</sup>	1,538
Polo	214,508	185,093	M.A.N. trucks			SEAT S.A.	1,505
Audi 80/90	179,648	191,591	6-9 t	2,908	2,618	Volkswagen Bruxelles	834
Audi 100/200	157,711	149,336	Trans/Terra	18,444	-	Volkswagen of America	389
Scirocco	32,964	33,674	Volkswagen trucks 6-22 t	15,245	11,737	Volkswagen de Mexico	327
Audi Coupé/ quattro	17,666	23,372	Golf pick-up/ Caddy	14,694	12,795	Volkswagen of South Africa	168
Ibiza	121,526	-	Voyage pick-up	14,028	11,674	Volkswagen Argentina	98
Voyage	69,961	75,628	Other commercial vehicles	1,724	2,638		
Gol	69,798	66,641					
Beetle	46,633	86,189					
Malaga	41,292	-					
Panda/Marbella	36,879	-					
Other passenger cars	35,350	18,265					

<sup>1)</sup> Not including knocked down vehicles delivered within the Group; AUDI AG: not including Porsche 924/944

Main supply relationships between Volkswagen AG and the affiliated producing companies

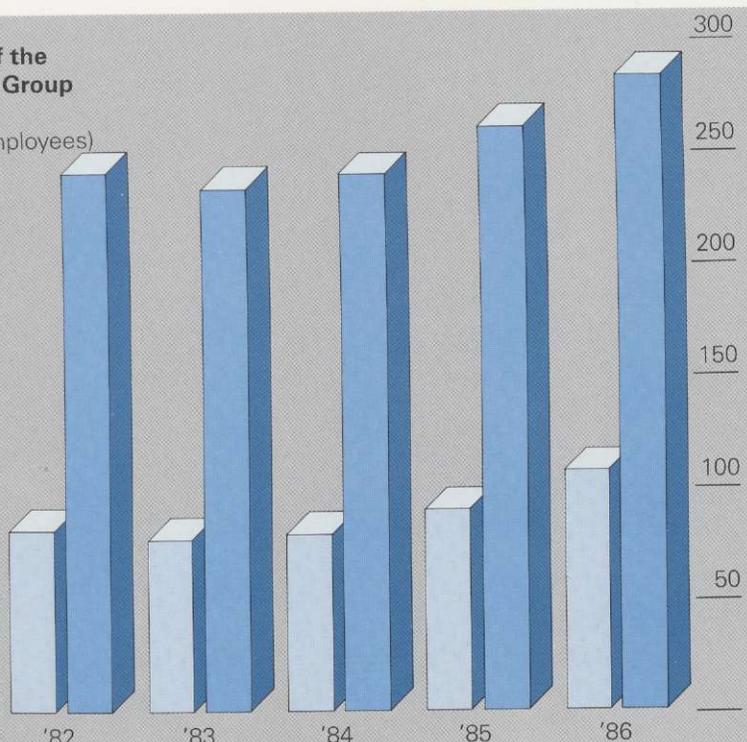
	Finished vehicles	CKD vehicles	CKD part sets	Individual parts	Supplies of assemblies	Spare parts
AUDI AG	○			●○		○
SEAT S.A.	●○	●	●			●
Volkswagen Bruxelles	○			●		
TAS Yugoslavia	●○	●			○	●○
Volkswagen of America	●			●○	○	●
Volkswagen Canada	●			○		●
Volkswagen do Brasil				●	○	
Volkswagen de Mexico			●	○	●○	●○
Volkswagen of South Africa			●		○	●
Volkswagen of Nigeria						●
Shanghai-Volkswagen		●				●

● Supplies by Volkswagen AG  
○ Supplies to Volkswagen AG

**Workforce of the  
Volkswagen Group  
at year end**  
(thousand employees)

**Total**

**Abroad**



The volume of production at Volkswagen AG amounted to 1,509,439 automobiles, which was 3.6% more than in 1985. However, the actual rise in production was much higher because assembly sets destined for SEAT S.A. were no longer listed as Volkswagen AG output as of January 1986; if an adjustment had been made for purposes of comparison there would have been an increase of 10.2%. By shifting part of Polo assembly to Spain it was possible to release capacity which was urgently needed for Golf production in Wolfsburg and this enabled us to meet the high demand for this model. The Wolfsburg plant achieved a total production figure of 882,000 units which was the best result since 1971 (909,000 vehicles) and was thus the largest automobile factory in the world in terms of passenger car output. Production of the Golf per working day came to 3,206 vehicles (+ 14.3%), including the vehicles assembled by Volkswagen Bruxelles, a figure which was for the first time above the record level of 2,831 units achieved by the predecessor model in 1978. There was also a distinct increase in unit output for the Polo in Europe

(+ 15.9%). This trend too would have been impossible without the capacity provided by SEAT S.A.

Despite considerable recruitments, partially maintaining production during the Company holidays and extra work it was not possible to avoid supply bottlenecks.

#### **Another increase in the size of the workforce**

At the end of December 1986 the Volkswagen Group employed a total of 281,718, including the staff at the SEAT group, which was 22,671 (8.8%) more than on December 31, 1985. The figure no longer includes the staff of the TA companies which have now been excluded from the scope of consolidation.

The 3.0% rise in the size of the workforce in West Germany to 175,384 was particularly due to recruitments at Volkswagen AG and AUDI AG. The main reasons for increasing the number of personnel were increases in capacity, compensation for the loss of free time resulting from work on Saturdays, more staff-intensive production

of upmarket vehicles and the increase in output of assemblies. AUDI AG was also affected by the starting up of production for the new Audi 80.

At the foreign subsidiaries the number of staff increased by 19.9% to 106,334, particularly as a result of including the 23,591 members of staff in the SEAT group for the first time. Staff was reduced at Volkswagen of America, Volkswagen do Brasil, Volkswagen de Mexico and Volkswagen of South Africa.

In 1986 the Volkswagen Group continued to take due account of the situation in the market for apprentices and trainees by again increasing the number of jobs with occupational training. SEAT S.A. will be opening up a training centre on September 1, 1987 starting with training for 156 young people in various industrial occupations. The joint venture Shanghai-Volkswagen Automotive Company, Ltd., Shanghai, began occupational training for 60 apprentices and trainees at a new training centre in 1986. The total number of youths undergoing occupational training in West Germany and abroad amounted to 7,235.

#### **Acknowledgement to staff**

The Board of Management would like to thank all the employees for the work they have done. It would like to express its gratitude to bodies representing the workforce for the sense of responsibility and constructive cooperation in overcoming the various problems.

Our special thanks go to the boards of management at our subsidiaries and all the executives in West Germany and abroad for their great sense of personal commitment.

We honour the memory of all members of staff, former employees and friends of the Company who have passed away.



*The Scirocco – the most popular sports coupé in Europe*

# Development of Financial Result

## Changes in currency parities influence the earnings situation

The favourable economic situation and the resulting utilisation of capacity have enabled us to keep the negative effects of disturbing factors on the consolidated financial result within limits. Some of the problems we were faced with were the government price control in Brazil, the drastic changes in currency parities (particularly the drop in the US dollar against the German mark) as well as structural adjustments and the start-up costs for the new Audi 80. Net earnings for the Volkswagen Group amounted to DM 580 million (DM 596 million).

Positive contributions to the financial result were again made by the European subsidiaries, with the exception of the SEAT group. This company and its subsidiaries, which were included in the scope of con-

solidation for the first time, returned a loss in 1986 as expected.

The North American subsidiaries, Volkswagen de Mexico and Volkswagen Argentina showed profits. On the other hand, Volkswagen do Brasil again returned a loss.

The earnings situation at Volkswagen of South Africa improved considerably in 1986 despite the high burden resulting from the drop in the exchange rate so there was only a small loss in the financial statements drawn up under South African law.

Another detrimental factor affecting the result emanated from the sale of the TA Triumph-Adler companies as of August 31, 1986.

## Serious incidents in connection with currency transactions

As a company which operates worldwide Volkswagen AG engages in currency transactions because of its large volume of exports. However, fraudulent manipulation of foreign exchange dealings feigned the hedging of inherent risks at a time when the rate for the US dollar was higher. For this reason these foreign exchange transactions at Volkswagen AG have to be regarded as unsecured.

In view of the losses which may be expected as a result, provisions were made in the financial statements of Volkswagen AG amounting to DM 473 million for the fiscal year 1986, whereby the unfavourable exchange rates compared with the balance-sheet date were taken into account when the balance sheet was prepared.

## DM 10 dividend

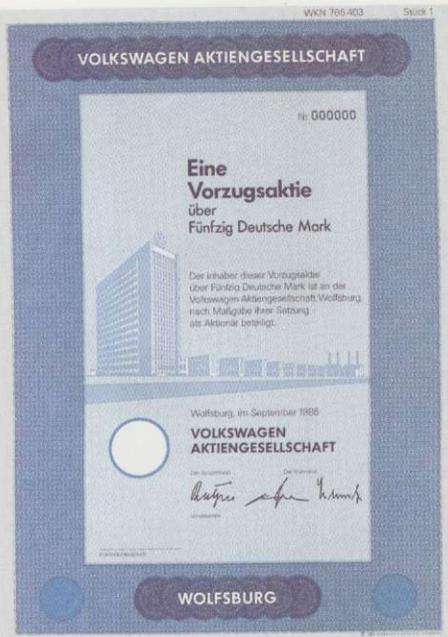
Volkswagen AG closed the past fiscal year with net earnings amounting to DM 485 million, thus exceeding the previous year's level of DM 477 million.

Despite the burdens due to the provisions necessary to take account of the incidents in connection with currency transactions it is possible to recommend, in addition to the transfer of DM 190 million to reserves, payment of a dividend of DM 10 per DM 50 share to the holders of ordinary shares. Taking the DM 5.63 tax credit per DM 50 share into account, eligible holders of ordinary shares will be entitled to earnings totalling DM 15.63. Holders of preference shares who are fully entitled to dividend for the entire fiscal year will receive an extra dividend of DM 1. Including the DM 6.19 tax credit per DM 50 share eligible holders of preference shares will consequently receive DM 17.19.

## Proposal on appropriation of net earnings available for distribution:

The Board of Management proposes that the net earnings available for distribution of Volkswagen AG be appropriated as follows:

Dividend distribution on capital stock of DM 1,500 million	306,000,000 DM
of which: on ordinary shares	240,000,000 DM
on preference shares	66,000,000 DM
Balance (carried forward)	1,105,905 DM
Net earnings available for distribution	307,105,905 DM



### Stockholders' equity base strengthened

The assets of the Volkswagen Group rose by 16.9% to DM 40,709 million owing to the animated investment activity. There were major changes particularly in fixed assets because of the inclusion of the SEAT group, the sale of the TA Triumph-Adler group and the sale of large parts of TANA and consolidated subsidiaries. As a result of this reorganisation, fixed assets increased to DM 10,458 million (+ 19.7%). The rise in investments essentially resulted from the acquisition of a 5% share in Olivetti and from goodwill arising as a result of the investment in the SEAT group. Overall the 37.4% share of total assets accounted for by fixed assets and investments therefore rose to 40.1%. Current assets rose by DM 2,603 million to DM 24,394 million. However, its share of the balance-sheet total fell from 60.6% to 59.9%. Liquid funds at DM 9,574 million were up by DM 1,288 million on the previous year's level.

On the stockholders' equity and liabilities side, capital stock increased by a nominal amount of DM 300 million to DM 1,500 million owing to the increase in capital at Volkswagen AG by the issue of non-voting

preference shares. The subscription price of one new share was fixed at DM 350. The shares were placed on the market in the proportion of one new share against four old shares held. Thus the Board of Management has made full use of the authorisation given by the 1986 Annual Meeting of Stockholders to issue bearer preference shares.

The rise in Group reserves was particularly due to the premiums on the capital increase at Volkswagen AG, the issue of option bonds and a transfer from the net earnings of the parent company. The share of the balance-sheet total accounted for by stockholders' equity rose from 21.2% the previous year to 25.7% as a consequence.

### Further capitalisation measures well placed in the market

The Annual Meeting of Stockholders on July 12, 1984 had consented to the creation of potential capital stock of up to DM 200 million and the Board of Management was authorised to issue convertible bonds, option bonds and participating income bonds for up to DM 600 million with approval by the Supervisory Board. In January 1986 a first step was taken to take advan-

### Structure of the consolidated balance sheet compared with the previous year

DM million	Dec. 31 1986		Dec. 31 1985	
		%		%
<b>Assets</b>				
Fixed assets and investments	16,315	40	13,031	37
Current assets	24,394 <sup>1)</sup>	60	21,791 <sup>1)</sup>	63
<b>Total assets</b>	<b>40,709<sup>1)</sup></b>	<b>100</b>	<b>34,822<sup>1)</sup></b>	<b>100</b>
<b>Stockholders' Equity and Liabilities</b>				
Stockholders' equity	10,482	26	7,395	21
Liabilities payable within				
more than four years	7,084	17	6,323	18
1 to 4 years	5,278	13	6,261	18
up to one year	17,865	44	14,843	43
<b>Total capital</b>	<b>40,709<sup>1)</sup></b>	<b>100</b>	<b>34,822<sup>1)</sup></b>	<b>100</b>

<sup>1)</sup> Decreased by the amounts shown on the stockholders' equity and liabilities side as allowance for doubtful trade acceptances and accounts

tage of this authorisation. Volkswagen International Finance N.V., a wholly owned subsidiary of Volkswagen AG, issued a 3% option bond for DM 250 million with a 10 year term on the Euromarket. In August a second step was taken by issuing a Eurodollar option bond for US \$ 150 million also at an interest rate of 3%. This bond has a term of 15 years. The funds created by the two bonds are serving to finance investments by the Volkswagen Group. This means that the volume (DM 600 million) created for the issue of convertible bonds, option bonds and participating income bonds has now been virtually used to the full.

#### Improvement in balance-sheet ratios

The capitalisation measures taken in 1986 changed the balance-sheet ratios considerably. 64.2% of fixed assets and investments was covered by stockholders' equity and 107.7% was covered by long-term capital. The ratio for liquidity as the proportion of liquid funds plus short-term receivables and loans to short-term outside capital reached 91.4% (96.2%).

#### Cash flow at high level

Compared with the previous year cash flow decreased by 6.0% to settle at DM 4,285 million. Owing to heavy investment the percentage of capital investments financed by cash flow fell from 134.6% the previous year to 67.3%.

### Development of short-term liquidity of the Volkswagen Group

(in DM million)

Additions to fixed assets			- 5,027	
Additions to investments incl. increase in the adjustment items arising from initial consolidation			- 1,339	
Additions to leasing and rental assets			- 2,738	
Increase in inventories and advance payments <sup>1)</sup>			- 498	
Decrease in long and medium-term receivables <sup>1)</sup>			+ 109	
<b>Use of funds</b>				- 9,493
Net earnings			+ 580	
Depreciation of fixed assets, write-down of investments and disposal of assets			+ 5,792	
Increase in provision for old-age pensions			+ 250	
Changes in reserves not affecting liquidity, increase in stockholders' equity in reserves for special purposes			+ 14	
<b>Current operations</b>				+ 6,636
Dividend payments to stockholders of Volkswagen AG and minorities in 1986			- 240	
Decrease in long and medium-term liabilities			- 472	
Capital increase in 1986 and transfer to reserves			+ 2,107	
Increase in other items			+ 514	
<b>Financial transactions</b>				+ 1,909
				- 948
<b>Change in liquidity position</b>				<u>          </u>
	Dec. 31	Dec. 31		Change
	1986	1985		
Liquid funds, trade acceptances	9,210	4,326		+ 4,884
Securities, treasury stock	364	3,960		- 3,596
Short-term receivables and investments (advance payments not included) <sup>1)</sup>	6,736	6,010		+ 726
Short-term liabilities and undetermined liabilities (including liabilities in reserves for special purposes) <sup>2)</sup>	17,557	14,595		- 2,962
<b>Change in financial funds</b>				<u>          </u>
				- 948

<sup>1)</sup> Decreased by the amounts shown on the stockholders' equity and liabilities side as allowance for doubtful trade acceptances and accounts

<sup>2)</sup> Not including amounts intended for distribution

### Earnings situation impaired by the dollar

Gross performance of the Volkswagen Group rose in 1986 by 2.4% to DM 53,962 million. Owing to the increase in production, the cost of materials rose by 7.6% to DM 28,656 million compared with the previous year. As a consequence its share of gross performance rose to 53.1% (50.5%). Whilst the workforce was increased by an average of 14.6% compared with 1985, labour cost only rose by 6.0% to DM 14,747 million owing to changes in exchange rates, despite pay increases. In relation to gross performance, however, its share moved up from 26.4% to 27.3%. The reduction in earnings led to a drop in taxes, which accounted for 2.8% of gross performance.

### Structure of the consolidated statement of earnings

DM million	1986	%	1985	%
Sales	52,794	98	52,502	100
Change in inventories	671	1	— 299	— 1
Material, wages and overhead capitalised as additions to plant and equipment	497	1	506	1
Gross performance	53,962	100	52,709	100
Cost of materials	28,656	53	26,623	51
Labour cost	14,747	27	13,913	26
Depreciation	2,989	6	3,411	7
Depreciation of leasing and rental assets	1,491	3	1,259	2
Taxes	1,489	3	2,124	4
Sundry expenses less sundry income	4,010	7	4,783	9
Net earnings	580	1	596	1



# Prospects

## Structural change in the automobile industry

The situation in the world automobile market has been changing at an increasing rate over the past two decades. In particular it has been the penetration by Japanese manufacturers, but also the astounding dynamism of new rivals from the Far East in recent years such as South Korea and Taiwan, which have caused the leading role of North America and Western Europe in world automobile production to continue its downward trend. This development has not yet come to an end. There are facilities for substantial production capacity under construction worldwide, especially at Far East manufacturers, and their vehicle output will constantly increase pressure from competition.

Alongside these shifts in automobile production there was a break in trend as far as world demand was concerned. After a significant, constant increase during the 1960's the volume of the world market overall has shown declining growth ever since the oil crisis in the mid-seventies. The traditional high-volume markets of the Western world have already reached a high density of motorisation. Although quality has improved significantly, unit sales are increasing only gradually because over 80% of sales are only serving to meet demand for new automobiles to replace old ones. This proportion will continue to increase in the years to come. As a consequence, demand for automobiles will in future be more dependent on the increase in motorisation in the Third World, particularly in Asia. The rate of motorisation in Latin America depends to a large extent on the progress made in solving the economic and financial problems.

The substantial increase in competition in all markets is having consequences in the form of responsive action taken by vehicle manufacturers. In the automobile industry, especially in the three major production and sales regions of North America, Western Europe and Asia, a profound structural change is currently taking place. Apart from efficient production facilities which are being built everywhere the number of



*The Sino-German joint venture – for Volkswagen an important step in the opening-up of a huge future market*

financial links and collaborative ventures is constantly increasing. One example is the now more substantial commitment by the Japanese and South Koreans particularly in North America where extensive interlocking with local manufacturers is just coming into being. This process is being accelerated by the growing American resistance to the high volume of imports by Japanese manufacturers.

Compared with North America the shift in production capacity of Japanese manufacturers to Europe is only in its initial stages. To compensate for the decline in Japanese automobile exports to the USA the exports to European countries have constantly been increased over the last few years, and the West German market has been of special significance. It is the largest automobile market in Europe and is the only major one to grant Far East manufacturers free access. In 1986 24% of Japan's exports to Europe were sold in the Federal Republic of Germany.

As it is becoming more and more difficult for Japanese producers in North America to maintain their exports at full volume, not least because of the rise in the value of the yen and the success achieved by the low-priced South Korean vehicles, it is particularly Western Europe which will in future remain as a potential area to compensate. Pressure from competitors will therefore increase further in the years to come, and the mergers already performed by European manufacturers will also contribute to this development.

#### **Clear rejection of protectionism**

The rise in exports by Japanese automobile manufacturers to Europe has prompted many countries, including ones in the European Community, to consider urging the Japanese manufacturers to introduce voluntary restrictions or imposing direct restrictions on Japanese imports themselves. However, as far as the Federal Republic of Germany and its unprecedented interlacing with the world economy are concerned, import restrictions cannot constitute a solution to the problem.

It will therefore remain the prime aim of the Volkswagen Group to meet even better the changing market requirements not only structurally but also in the fields of development and production. Corporate strategy aims at offering high-quality, technically innovative vehicles in order to secure and far-sightedly improve on our leading position. Some of the key concepts which are current at the moment are the 16-valve engine, the permanent all-wheel drive for Volkswagen and Audi vehicles, the new compressor system (G-charger) and the fully galvanised bodywork on the Audi models. In the light of increasing demand for more upmarket models immense importance is attached to qualitative growth which has always been an integral part of our product and production policy as well as our after-sales service policy. Apart from the continued development in the model range the systematic optimisation of costs at all levels of the manufacturing process is now moving more and more into the foreground of our work. All our efforts are aimed at keeping cost increases within narrower limits than previously in order to maintain our international position in the market in the long term.

#### **The automobile industry to continue on a steady course in 1987**

The upward economic trend in the Federal Republic of Germany will continue in 1987, albeit at a more moderate rate of growth. The positive economic situation is still based on domestic demand, particularly from private consumption. The favourable trend in net real income will continue to play its role in allowing demand for automobiles to remain at a high level in 1987.

Economic prospects are chiefly positive for the West European countries as well. However, the automobile industry has probably already passed its cyclical peak in the European high-volume markets.

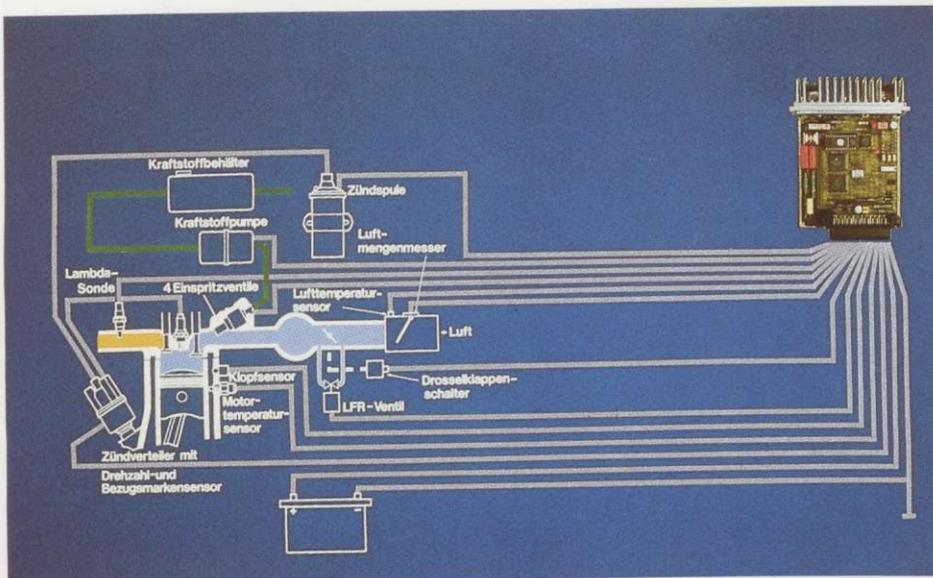
In the USA there is expected to be an improvement in the economic situation but only within limits. Indicators point to an increase in demand for consumer goods but domestic industry will probably expand to the detriment of imports. Most of

America's trading partners can therefore expect a drop in American business.

The Volkswagen Group will again take every opportunity in 1987 to use its future-oriented range of models to continue improving its position in the market.

# Research and Development

*DIGIFANT – a pioneering concept in the control and regulation of a spark-ignition engine*



## High expenditure on Research and Development

Investment in Research and Development by the Volkswagen Group amounted to DM 1.8 billion in 1986. Research and Development work aimed at securing and improving competitiveness. The key areas of new development were in the vehicle and assembly sectors, in series management and in modifications to models.

## PROMETHEUS – programme for a European transportation system with maximum efficiency and unsurpassed safety

Together with 13 other European automobile companies and numerous research institutions, Volkswagen, in conjunction with Audi and SEAT, has jointly formed the interlinked research project called PROMETHEUS in order to work out traffic guidance concepts. They serve to relieve drivers and are intended to contribute towards an increase in road safety. The Research and Development programme, which is to last 8 years, is aimed at creating a traffic system of the future in which the car represents only one component. Intelligent auxiliary systems serve to actively assist the driver in critical situations. Built-in computers or "co-pilots" process radio signals from other vehicles and from information systems installed along the roads and draw the driver's attention to

possible hazards. These traffic guidance systems also contribute to making the flow of traffic more uniform. Another important aim of employing microelectronics and data processing is to improve the economy and environmental safety of cars.

## New electronic injection system from Volkswagen

Volkswagen has developed a new system called DIGIFANT in order to optimise the air/fuel mixture and ignition. It consists of an integrated electronic control unit which serves to regulate both injection and ignition. The system can also be linked up to various optional facilities such as Lambda and knock regulating as well as overrun cut-out. With DIGIFANT due account has been taken of the exhaust emission legislation expected to be introduced in Europe.

## Numerous sporting features

In line with customers' expectations Volkswagen is now adding to the Golf GTI and the Golf GTI 16V a reasonably priced sporting alternative – the Golf GT. The important features of this model are the 90 bhp engine, the sporting 5-speed gearbox and the level of comfort to be found in the Golf GTD.

At the same time we launched the 51 kW (70 bhp) Jetta GTD and the visually similar

66 kW (90 bhp) Jetta GT. The Jetta sales range was also complemented by the economical sports version, the Jetta GT 16V, for the connoisseur of classic bodywork. As with the Golf GTI 16V and the Scirocco GTX 16V, the engine has a capacity of 1.8 litres and an output of 139 bhp. With this addition to the range of models the Jetta too has now been able to benefit from the most sophisticated engine and running gear technology and sports tuning with great power potential in conjunction with attractive features and a comparatively modest price. By introducing this option of a Volkswagen sports saloon which can compete well with much more expensive vehicles Volkswagen is expecting to stimulate interest from new, demanding groups of customers.

## The new Polo diesel – robust and economical

Since its introduction in the Golf class the diesel engine has gained ever increasing importance with its two versions, the suction diesel and the turbo diesel, making Volkswagen the largest manufacturer of diesel engines for compact passenger cars in the world. Diesel engine vehicles have continued to play an important role, not only in terms of economic aspects but also in the light of exhaust emission legislation.

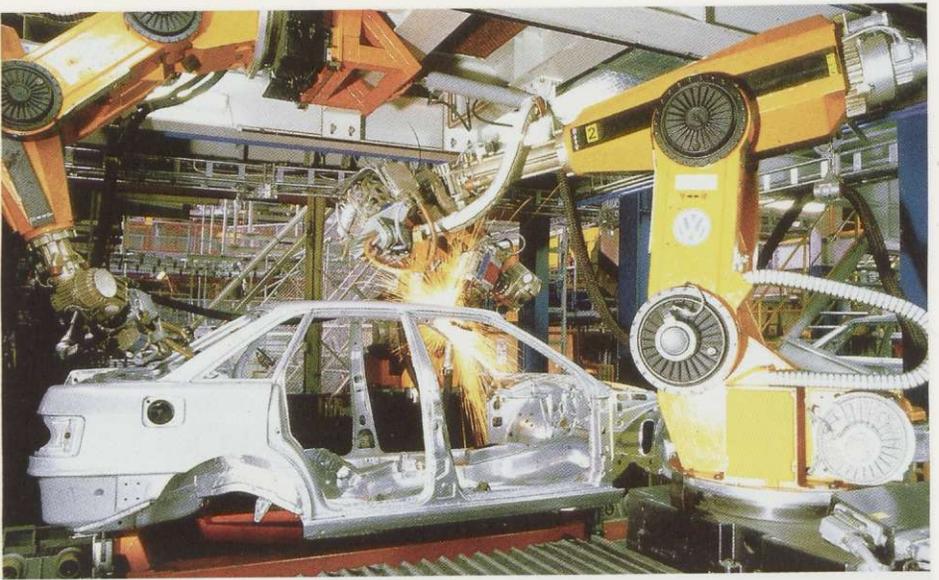
By introducing the 1.3 litre/33 kW diesel engine Volkswagen can now also supply a diesel engine for the Polo range of models. In conjunction with the economical, robust and environmentally safe drive unit, the sensible graduation of a 5-speed gearbox and a wealth of special features the new Polo diesel provides plenty of motoring enjoyment due to exceptional road performance and excellent road-holding power under all driving conditions.

Robots spot-welding the fully-galvanised bodysell of the Audi 80

**The new Audi 80 – representative of a new generation of middle-range cars**

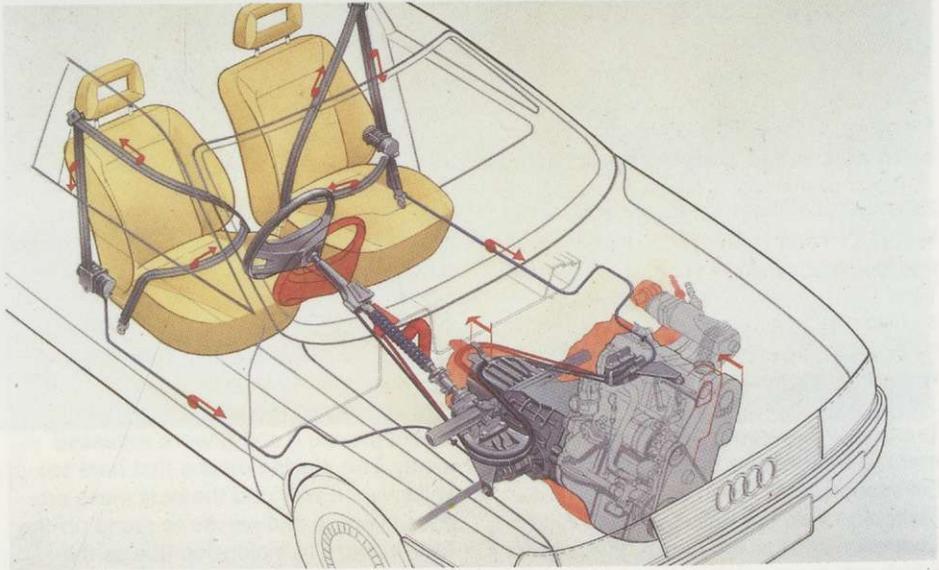
The new Audi 80 is an exemplary unit as far as elegance, aerodynamics, interior features and economy are concerned. This vehicle also displays a multitude of technical innovations. They include the use of fully galvanised steel panels as well as flexible, coloured stone protection trims which also protect the bodywork from physical damage.

The already exemplary aspect of economy has been improved even further on the new Audi 80. We tended to prefer technical solutions which increase ease of maintenance and repair. This is achieved by maintenance-free electronic ignition systems, long-life spark plugs, a self-adjusting hydraulic clutch, a low-maintenance battery and a long-life exhaust system.



**Standard of safety improved further**

Particularly the new safety system called "procon-ten", which has been incorporated into the Audi 80 for the first time, has attracted great attention. The system is activated by the distortion of the vehicle when it is involved in an accident. If the car crashes the engine/gearbox block is pushed to the rear. This motion causes steel cables to pull the steering wheel forward out of the vicinity of head impact and the safety belt pay-out mechanism is halted simultaneously. Occupants with their seatbelts on are consequently much less likely to suffer from impact.



The "procon-ten" safety system – an amazingly simple solution for reducing the risk of injury in a frontal impact

Another improvement in safety has also been achieved by the new "Torsen" differential on the Audi 80 quattro. The advantage is that it is always the axle which has better road holding which is allocated more power. As soon as an axle tends to spin more torque is automatically applied to the other one.

# Motor Sport

## Development

To crown the jubilee year –  
Volkswagen's first world rally  
championship title with a Golf GTI 16V



### 20 years of Volkswagen motor sport: World Championship title on our anniversary

The know-how obtained through Research and Development has also been tested in motor sport under the severest of conditions for many years now.

To crown Volkswagen's 20 years of commitment to motor sport the Swede Kenneth Eriksson with his German co-driver Peter Diekmann won the Rally-Drivers' World Championship title in Group A, the class for which only mass produced vehicles qualify, in a Golf GTI 16V which bears a close relationship to the production model.

This year was the first time that the most senior motor sport authority, the FISA in Paris, was offering this World Championship title for mass produced cars with only minimal modifications and thus brought about a clear distinction from the Group B vehicles with 500 or more bhp which are specially developed for rally sport. As of 1987 only mass produced automobiles will qualify for the Rally-Drivers' World Cham-

ampionship for safety reasons so Volkswagen's motor sport activities in 1986 played a pioneering role.

As a result of the success achieved by the Eriksson/Diekmann team, Volkswagen also managed to take third place in the Manufacturers' World Championship where groups A and B were assessed jointly. This placing means that here too Volkswagen provided the best mass produced vehicle and serves to round off the 1986 World Championship title as the greatest success in Volkswagen's motor sport history.

Continuing our Formula V tradition the step we took into Formula 3 with the Golf GTI engine was only logical and consistent. This the toughest racing-car class in the world, which is regarded as the only stepping stone to Formula 1, has never been so quickly conquered and dominated by any one make. All the national championships and all the major international races were won with GTI engines.

For 20 years now the pillars of strength, formula sport and rally sport, and the manufacturers' cups have confirmed the long-term and economically oriented motor sport philosophy at Volkswagen: closeness to the production model and optimum presentation of its performance and stability.

### Audi returns to the Rally-Drivers' World Championship

In May 1986 Audi retired from the Rally-Drivers' World Championship because safety along the routes was no longer guaranteed for drivers and spectators. Now that the safety precautions have been considerably improved in collaboration with the organisers of major World Championship rallies, it will again be possible to participate in 1987 to a limited extent. The decision was taken particularly in the light of the fact that in technical terms Audi benefits from experience obtained in rally participation and applies it in full-scale production.

At the Monte Carlo Rally, the first rally in which Audi took part again, the works team of Röhr/Geistdörfer achieved a sensational third place in an Audi 200 quattro production model.

In 1986 Audi attracted quite an amount of attention by achieving important international victories and speed records outside the Rally-Drivers' World Championship. As in the previous year the renowned "Pikes-Peak Hill Climb" in the USA was won by an Audi Sport quattro in a new best time. After the successful premiere in 1985 the Hongkong – Peking Rally again saw the victory of an Audi quattro.

At the Talladega high-speed racetrack in the USA it was a special Audi 5000 CS quattro which set up a new speed record of 332.85 km/h and also achieved eight new national speed records for all-wheel drive and turbo vehicles.

Private drivers also won numerous national and international championships and motor sport competitions in Audi models.



Sensational comeback in world championship rallying with an Audi 200 quattro



*The new smelting plant in Kassel – an example of the most up-to-date production processes*

The market success of the products manufactured by the Volkswagen Group and the excellent economic situation in the automobile industry secured a high level of utilising production capacity. Bottlenecks were alleviated by a large number of staffing measures, particularly through making work time more flexible, and capacity was rounded off.

### **Reinforcing competitiveness by the introduction of new production methods and technologies**

A further increase in the degree of automation is essentially only possible in the assembly sector so new automation systems are being implemented in component assembly. The gearbox plant at Kassel is playing an important role in this but the plants at Emden (specialising in bodyshell assembly) and Brunswick (specialising in toolmaking) are currently building up extensive projects which will serve as a model for all the other plants in the Volkswagen Group as far as automation is concerned.

The modernisation of the press shops was also continued in the past fiscal year, one example being the extension of the Hanover press shop. In many sectors rigidly automated production equipment has been replaced by flexible machine systems. The rapid changes in the automobile market will call for more and more adaptability on the part of man and machinery to meet customers' requirements for different models and features.

The new foundry at Hanover and the new smelting plant at Kassel signalled the completion of projects which are helping to secure the competitiveness of the Volkswagen Group for the future. These fields are showing particularly large growth owing to the increase in demand for light alloy components.

### **Organisational changes in the production process**

New technologies called for new approaches to the organisation of work. The main emphasis was on mastering the information processing in the production process and this will be continued more intensely in future.

Flexible production facilities and even complete sections of factories will be controlled and monitored more and more by modern computerised equipment. Although it is still impossible to talk of computer-controlled factories the share of investment accounted for by computer equipment is becoming larger and larger. These technologies are incorporated into an overall strategic concept, even though there are still insular solutions which can only be integrated at a later stage.

One large field is the implementation of new technologies to reduce preparation time for new models of vehicle. It includes Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM). In a special programme comprising several stages and lasting a number of years, CAD and CAM technologies are being introduced in the fields of design, planning and equipment manufacture at Volkswagen.

For the automobile industry it is becoming more and more evident that high technology can only be achieved in collaboration with others. Cooperation ranges from joint research on international standards work to the "INPRO" in Berlin, an innovation company set up by German automobile manufacturers in which Volkswagen has a 20% interest. Volkswagen AG also has shares in VW-Gesellschaft für technische Datenverarbeitungssysteme mbH (VW private limited company specialising in technical data processing systems and abbreviated to VW-GEDAS) and in Ingenieurgesellschaft für Aggregate-technik und Verkehrsfahrzeuge mbH (private limited engineering company specialising in assemblies technology and passenger transportation vehicles, abbreviated to IAV) which are also based in Berlin. A joint venture was also set up along with Bergmann Kabelwerke AG,

Berlin, for wire loom manufacture and Volkswagen has a 50% interest. Together with the new company, which is called Volkswagen Bordnetze GmbH, Berlin, Volkswagen has further increased its presence in Berlin.

Taking the new technologies into account, the fact that our employees in production assume sole responsibility for the performance of their work is leading to slow but significant changes in the organisation of operations. The quality of products is improved by employees assuming responsibility for the quality of their work, by reliable production processes as far as quality is concerned and by special quality programmes in many areas. Decentralised maintenance, well qualified machine operators with responsibility for servicing, and an improvement in cost transparency are designed to make this unsupervised action possible in the smallest work groups.

In the field of logistics new forms of organisation are being introduced in the factories which are aiming at greater transparency and an acceleration in material flow and order processing.

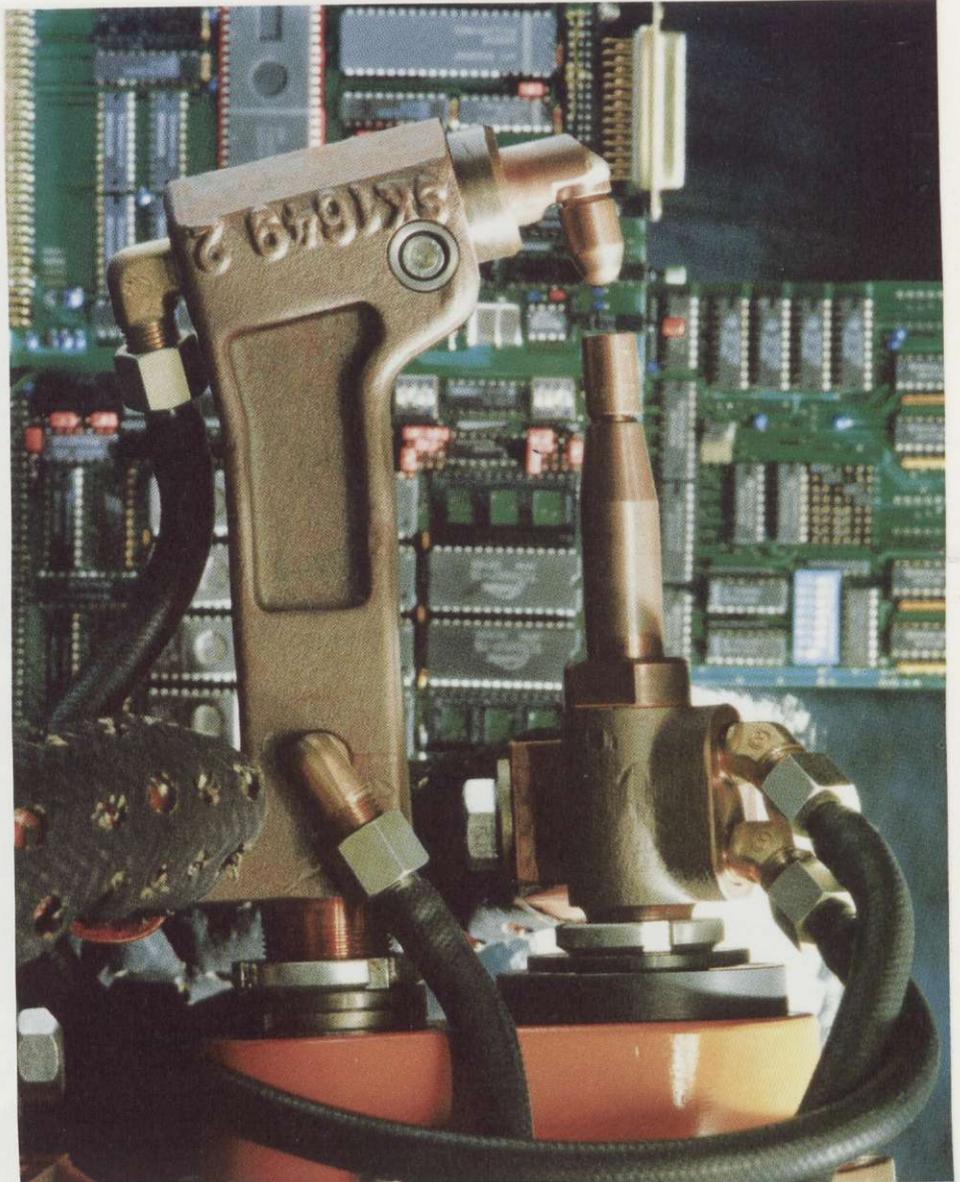
# Quality Assurance

## Improvement in methods of production and testing

Together with the Development and Production Divisions the Quality Assurance Division has managed to incorporate numerous improvements in the products. As a result we have been able to enhance our standards of quality, to certify this in the form of a mobility guarantee and to pass on the progress achieved to the customer. In 1986 an example of constant improvement in production and testing processes was set by the implementation of spot welding control and voice communication between checkers and computers.

Spot welding control is a method of optimising spot welds, thus reducing the number of extra welds and the amount of subsequent work on the surface. Productivity and quality are showing equal improvements.

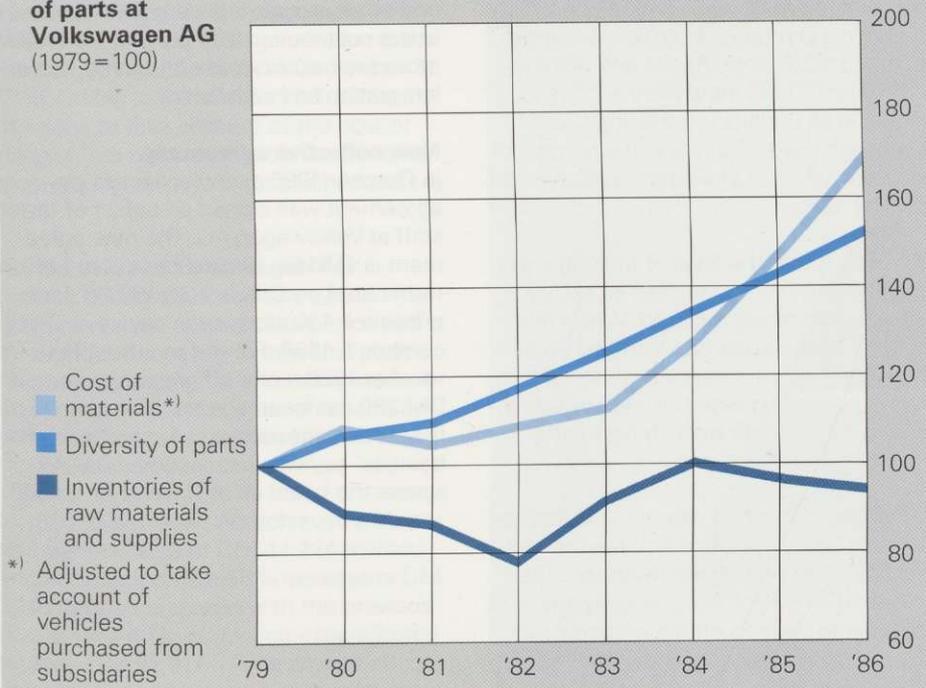
In their work the checkers are having more and more two-way communication with computers which use the test results entered and vehicle-related data to provide test instructions without any supervision. Instead of manual records or coded keyboard entries it has been possible to protect the computer voice input and output from factory noise to such an extent that the test instructions can be given by microphone and the test results can either be fed through headphones or displayed. This serves to improve accuracy and efficiency in testing.



*Improved productivity and quality through the new spot-welding control system*

# Purchasing and Logistics

**Cost of materials, inventories of raw materials and supplies and diversity of parts at Volkswagen AG (1979=100)**



## Volume of purchasing rose again

In 1986 our purchases of raw materials and supplies, semi-finished and finished products as well as capital goods and services reached a value of DM 37 billion for the Volkswagen Group. This corresponds to another increase of 9.8% compared with the high volume of the previous year.

At Volkswagen AG purchases increased by 19.6% to DM 21.6 billion, DM 16.4 billion being accounted for by production materials. Purchases of capital goods and services amounted to DM 5.2 billion.

## High performance from suppliers

In the past fiscal year again our suppliers all over the world have been providing excellent technical and qualitative performance with great commitment and a high level of flexibility.

Consequently it has been possible to realise the wide variety of development work, the launching of the new Audi 80 and further additions to the product range and extensive investment projects according

to schedule. The high demand for all Group models and particularly the significant trend towards vehicles with low-pollution engines and upmarket features meant considerable additional demands being made of our colleagues in the supply industry.

Special importance was attached to the acquisition of capital goods in the light of increasing utilisation of capacity in toolmaking and mechanical engineering.

## Closer cooperation with the supply industry

Smooth collaboration with suppliers is the basis for implementing Volkswagen's logistics concept in order to realise the projects which have been worked out where the emphasis is on mutual benefit. A further boost in competitiveness is in the foreground. The first new logistics drafts were introduced jointly with our suppliers.

## Improvement in materials management

The measures implemented by the Volkswagen Group in recent years for optimising inventory management are taking effect. This is particularly evident from the trend in West Germany where the inventories of raw materials and supplies remained virtually unchanged by contrast with the considerable rise in expenditure on materials and in the diversity of parts, and Volkswagen AG serves as an example.

Owing to the improvement in material flow from the supplier to production we were able to again reduce, with reasonable risks, the time for which inventories would allow production to be maintained.

# Report on Social Matters at Volkswagen AG

## Largest workforce since 1971

On December 31, 1986 Volkswagen AG employed 132,188 members of staff at the six West German plants. This is an increase of 8,590 or 6.9% compared with the end of the previous year. The highest level of 133,970 in July 1971 was almost reached again.

The capacity bottlenecks resulting from the very high level of demand for all the Group models made it necessary for us to increase production which led to the recruitment of 14,831 employees.

Another measure for reducing delivery times was the partial maintaining of production during factory holidays. Through the work performed by 21,310 employees, including 3,020 students, we were able to produce about 20,600 vehicles.

## Number of apprentices and trainees has never been so high

In view of the still high level of unemployment among young people Volkswagen AG recruited 1,535 apprentices and trainees. At the end of 1986 there were 4,425 young people in all undergoing training. Compared with the previous year the number of apprenticeships/traineeships available had risen by 122.

This meant that the level of training was again well above the number of skilled employees actually required. When the apprentice or trainee has qualified he or she is given a permanent job (although not always coinciding with training), which is not least due to our early retirement scheme.

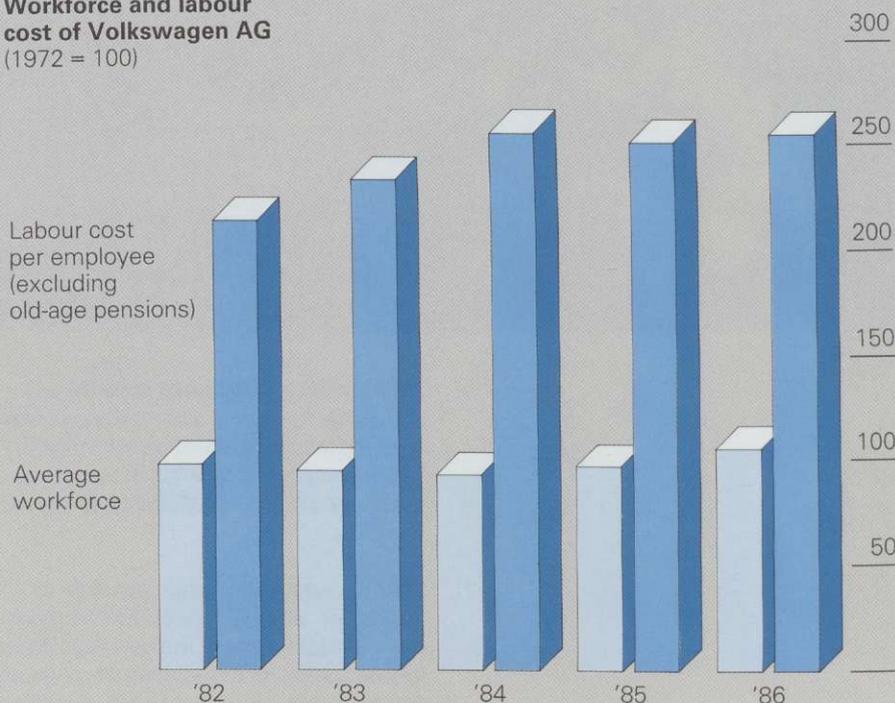
Specialised follow-up training at Volkswagen was again directly related to the high technology of production methods. The competitiveness of the Company will continue to depend on the workforce incorporating their know-how and experi-

ence obtained in the daily work process in the products themselves. "VW Circles" and other programmes are making an active contribution to improving production processes, quality, cost structures, human integration and satisfaction.

## New collective agreement

In October 1986 a new collective pay agreement was signed on behalf of the staff at Volkswagen AG. The new agreement is valid for 12 months and can be terminated on October 31, 1987. It comprises a 4.4% increase in pay as of December 1, 1986. For the month of November 1986 a one-off gross payment of DM 230 has been agreed upon instead of the percentage increase. Apprentices' and trainees' pay was increased by DM 40 across the board as of November 1, 1986.

**Workforce and labour cost of Volkswagen AG**  
(1972 = 100)



### Payments to former members of staff

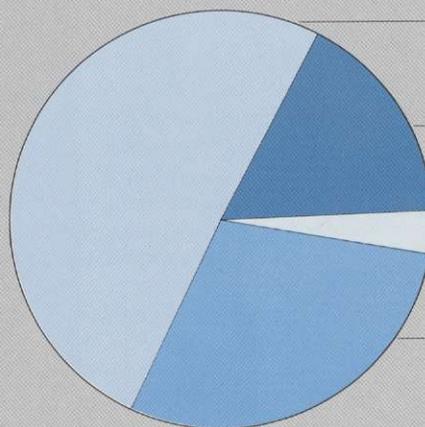
The number of Volkswagen AG's former members of staff or their survivors who receive a Company old-age pension rose from 24,922 to 26,519 as at December 31, 1986. Owing to the statutory adjustment of pensions to take account of the cost of living, 4,729 persons eligible for benefits received higher payments as of January 1, 1986.

### Added value of Volkswagen AG

It is the added value analysis which indicates how the Company has performed throughout the year and how this performance was distributed. It corresponds to the economic performance of a company and constitutes its contribution towards the national product.

In 1986 Volkswagen AG achieved a corporate performance of DM 44,224 million. This corresponds to a 7.6% increase or DM 3,110 million compared with the previous year's level. After deducting expenditures totalling DM 32,217 million as well as depreciation and losses resulting from disposals of assets amounting to DM 1,615 million, added value finally came to DM 10,392 million (+ 3.3%). This increase in value created by Volkswagen AG is distributed to the stockholders, staff, the State, creditors and to the Company itself to comply with contractual and legal obligations.

### Structure of the workforce at Volkswagen AG (at year end)



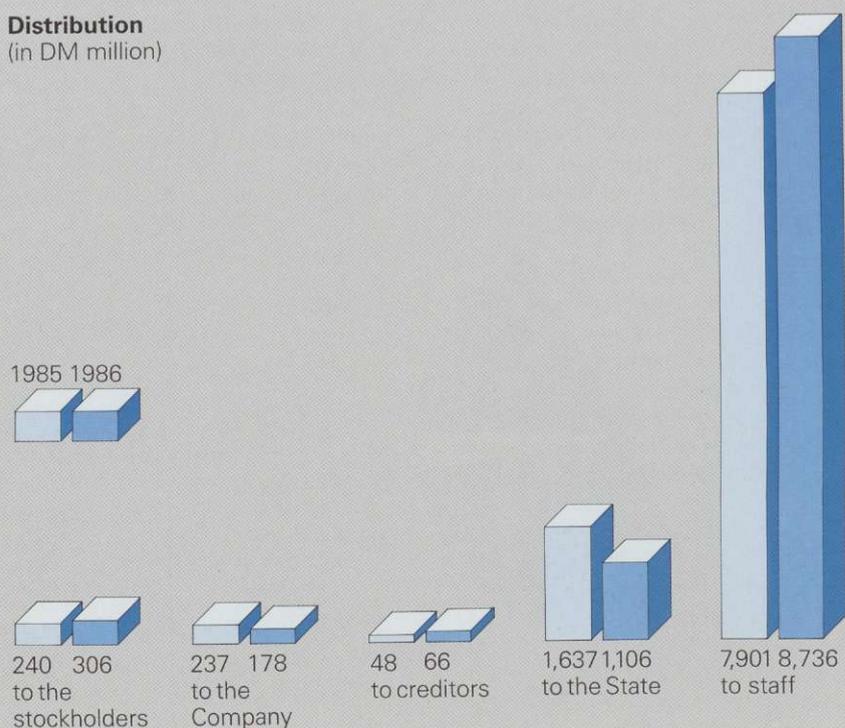
Wage-earners	67,166	50.8%
	(62,247)	50.4%
Salaried staff	22,012	16.7%
	(20,289)	16.4%
Trainees	4,425	3.3%
	( 4,303)	3.5%
Salaried workers (incl. CKD production)	38,585	29.2%
	(36,759)	29.7%

### Sources

(in DM million)

	1986	1985
Gross performance as shown in the statement of earnings drawn up as required under Corporation Law	41,391	39,187
plus other income	2,833	1,927
= Total performance	44,224	41,114
less expenditures (incl. cost of materials)	32,217	28,859
	(27,815)	(25,483)
less depreciation and losses on disposals	1,615	2,192
= Added value	<u>10,392</u>	<u>10,063</u>

**Distribution**  
(in DM million)



**Distribution of added value**

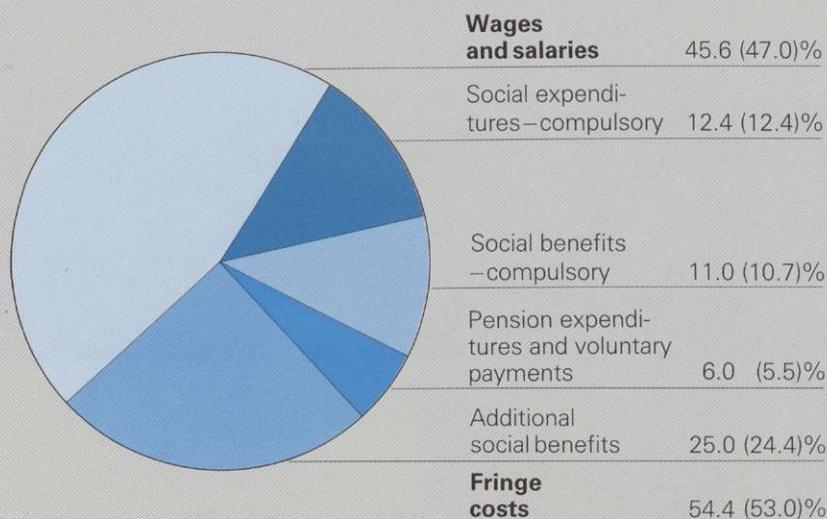
Of the total added value amounting to DM 10,392 million DM 8,736 million was distributed to staff. The increase in the proportion of added value accounted for by staff from 78.5% to 84.1% was mainly due to recruitments caused by a reduction in working time and in order to cope with the rise in demand.

The Company's tax payments amounting to DM 1,106 million meant that the State accounted for 10.7% of added value.

Owing to the DM 18 million increase in interest expenditure to DM 66 million the share accounted for by creditors rose from 0.5% to 0.6%.

Of the remainder of added value (DM 178 million) plus net earnings brought forward and the transfer from the reserve for treasury stock, DM 190 million has been transferred to reserves in order to improve capital structure and thus secure the competitiveness of the Company in the worldwide automobile markets. The DM 306 million added value accounted for by the stockholders of Volkswagen AG rose to 2.9% owing to the increase in capital stock eligible to dividend.

**Structure of labour cost of Volkswagen AG in 1986**



**The maximum bonus was awarded 18 times**

Through the suggestion scheme each employee has the opportunity of taking an active part in organising places of work and work procedures. The quality of the constantly increasing number of suggestions for improvement is making a major contribution towards cutting costs and improving the products.

The 47,400 suggestions for improvement received in 1986 are proof of the creativity of our staff and their sense of identity with the Company. Of these, 13,811 ideas, that is, 29.1% of the total number of suggestions received, were rewarded with bonuses.

The total bonuses payable by Volkswagen AG during the past fiscal year were DM 15.9 million (+ 20.5%). The maximum bonus of DM 100,000 was awarded for 18 suggestions for improvement.

#### **Further improvements in industrial medical care**

There were further improvements in the industrial medical care of staff owing to the introduction of appointments with the doctor at the place of work.

Specific medical examinations concerning any detrimental effects of new technologies were among the key areas upon which our industrial health service concentrated last year. They were carried out in close cooperation with the respective departments and partially with the backing of scientific institutions.

Trends for the future were also manifested in the creation of suitable conditions for the introduction of electronic data processing in the field of general preventive check-ups and computer-aided electrocardiogram analysis.

#### **Industrial safety has absolute priority**

At Volkswagen industrial safety has a tradition of being very important. This not only underlines the multitude of technical safety measures carried out in 1986. During the past year binding principles for preventing accidents were published, which the staff and the Company are obliged to follow.

Apart from the high utilisation of capacity at all the plants it was particularly the substantial rise in the size of the workforce which led to the fact that the number of accidents having to be registered unfortunately increased at Volkswagen AG compared with 1985, despite intense efforts by our Industrial Safety Department and all the bodies responsible for safety at the place of work.

#### **Loyalty to the Company reflected by long-service anniversaries**

Again in 1986 numerous members of staff were honoured for their achievements and their loyalty to the Company. 4,492 celebrated 10 years' service and 2,980 celebrated 25 years of service whilst 111 were congratulated on 35 years of service.

#### **More homes created**

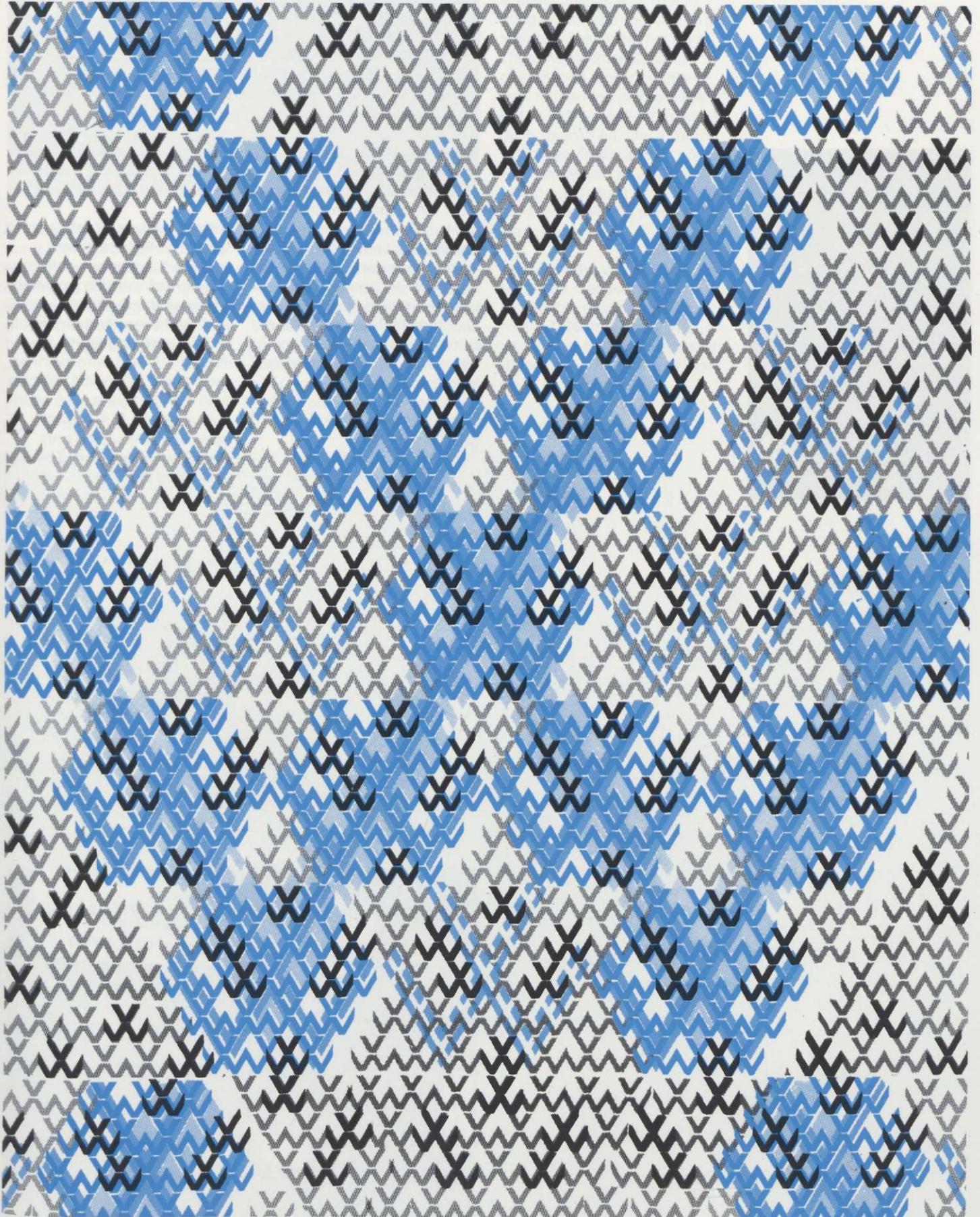
The subsidiaries VW-Siedlungsgesellschaft and VW-Wohnungsbau Gemeinnützige Gesellschaft continued to modernise the firms' homes. At the end of the year the two companies were administering 13,200 Company homes and 6,900 non-Company homes under the home occupancy entitlement for Volkswagen AG.

By granting low-interest building loans to employees Volkswagen has also been helping its staff to finance their own homes. During recent years the number of construction projects sponsored by the Company has increased constantly. Again during the past fiscal year 1,557 home-owners received financial backing to the tune of DM 32.8 million. Since 1948 the volume of construction projects promoted by the Company has therefore risen to 35,516 homes.

A pleasant form of travelling – the Caravelle  
Carat syncro



# 50 Million Volkswagens

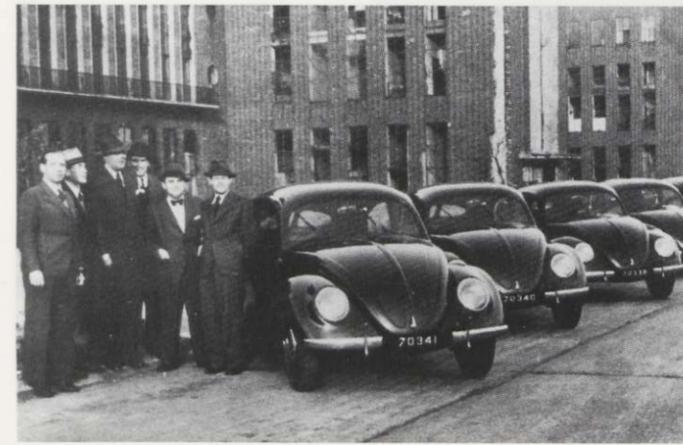




The celebrations are over, the speeches have all been made. Now we are into its second century we can start talking sensibly about the motor car again. Which is not to say that many of the flattering compliments handed out in Jubilee Year 1986 do not hold equally good for the future – after all, they are true. The automobile has made man mobile, and lent wings to progress. It has opened up the world for trade and transformation, has employed millions, and created work for countless millions more. And in its hundred-and-first year it stands steadier on its wheels than ever. Certainly, living with the motor car has become more difficult: Today's task, today's challenge is that of coming to terms with its omnipresence. But life without the automobile? The global economy would tumble like a house of cards; the wheels grind to a halt.

Reason enough then to be proud of the automotive pioneers of the past century, albeit Volkswagen and other companies were not yet in existence, when Daimler and Maybach, Otto and Benz, Horch and Porsche produced their great inventions. At the birthday celebrations the youngest of the big German automotive manufacturers conducted itself with modesty. How can one claim a front seat at not yet fifty years of age, scarcely half as old as the motor car?

Volkswagen's self-confidence springs from quite other sources. It is after all – going by numbers of vehicles produced – indisputably the biggest in the land. And this year it is going to achieve a milestone that permits of a certain retrospective satisfaction. 50 million vehicles with the VW badge have been built and sold. In 42 years – because the counting only begins in 1945 at the end of the 2nd World War.

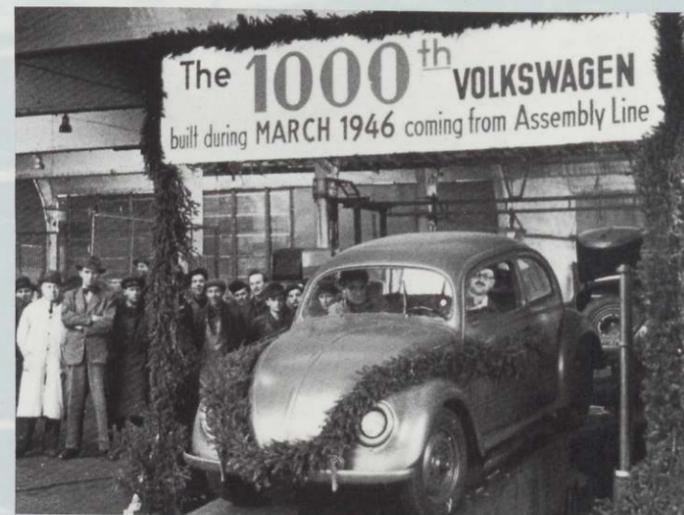


Fifty million. How to picture a number of this order? You could not park this multitude on all the autobahns of West Germany, for example, however tight you packed them. Bumper to bumper the chain would go five

times round the world. The entire population of the United States could be accommodated in Volkswagens, if the oldest of the marque were still in commission. And in theory fifty million VWs could meet West Germany's demand for cars for the next twenty years.

Behind the figure lies the unflagging work of many people. And one idea: a car for the people. Ferdinand Porsche formulated the idea in 1934, having designed vehicles with that in mind at Zündapp and NSU, in an age that was crying out for it. Then the National-Socialist regime took it over, without ever redeeming its promises. But the idea remained miraculously unscathed, and after the war it was finally able to sprout – not, however, as a state-inspired sop to the masses, but in the bracing air of a competitive market economy.

1945 saw the Volkswagen start out on its road with as yet no discernible destination. 50 million? Not to be imagined. It would have been considered, in those days, a delusion of grandeur.



**1950: The first big round number**

Even five years later, in 1950, nobody at Volkswagen was thinking in terms of automotive millions, and most certainly not of eight-figure numbers. Still there was something to celebrate that in retrospect has to be seen as the first determined

step in that direction: 100,000 cars had been built. It was possible to stand aside from those bleak beginnings when hungry men gathered to seek work in a factory without owners in a town without a name. For one frugal meal per day they had started repairing vehicles for the occupying power and progressed, in the half-ruined factory halls by the Mittel-landkanal, under the supervision of British officers, to cobble together the first Volkswagens.



The town was given a new identity, from then on being known as Wolfsburg; the factory got a new boss, Heinrich Nordhoff, who took over at the beginning of 1948. He was an old General Motors man whom the Americans did not feel like re-employing after the war, and he knew Porsche's Volkswagen project from the thirties. He did not think a great deal of it, and his pronouncement that the Volkswagen he found in Wolfsburg was "as ridden with



defects as a dog with fleas" gained currency. But he was utterly determined to make the best of this curious, beetle-shaped vehicle.

The concept of the VW was indeed, a dozen years after Porsche's first draft, still thoroughly progressive – but this was not enough. Nordhoff, who had demanded a free hand from the British (and got it too – "very decent of them" as he always emphasised) had in

mind a "people's car" deserving of the name – not just through its low cost but through quality, value maintenance, economy and good after-sales service.

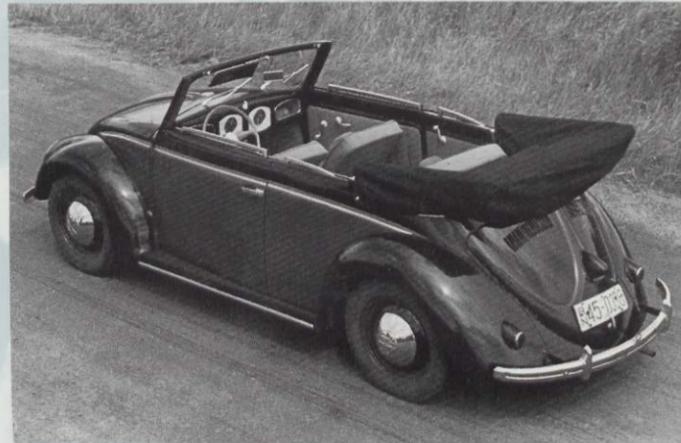
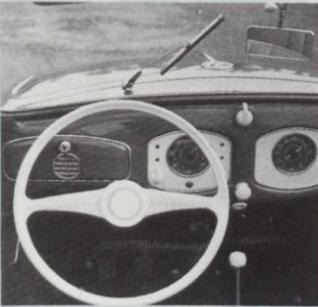


The currency reform did away with crippling controls. Less than a year later the Federal Republic of Germany was established and the Volkswagenwerk liberated from its legal no-man's-land: The right of disposal of the Wolfsburg works was transferred by the Allies to the Federal Government, which appointed the State of Lower Saxony to represent its interests. This, and the start of the economic upturn, fired the Wolfsburg team; the previous year's production was more than doubled. Under Nordhoff's leadership a domestic sales organisation was built up to help extend and consolidate the

Volkswagenwerk's lead which in 1949 represented a market share of just under 50 per cent.

Because investment in machinery was required, and for this foreign currency was necessary, attention was early given to exporting (and this despite the large backlog demand at home). The Pon brothers in Holland had already established themselves as the first foreign importers of Volkswagens before Nordhoff took office. Later the new boss himself took care of contacts. In spite of all the reservations he met within post-war Europe, he found venturesome businessmen, none of whom were to regret their decision to become VW dealers.

In 1949 the first two Volkswagens were shipped to the United States via Rotterdam. Nobody yet took notice of the newcomers. All the more swiftly grew the demand in the home country. Here in 1949 the simple standard Volkswagen was joined by the more handsome export model – and the Convertible built by Karmann which was to remain in the VW programme for the next thirty years and more.



# 1 1/2 Million





### 1955: One million up

Anybody who was there will not have forgotten it – the sumptuous celebration marking the one-millionth Volkswagen. This was in 1955, only a decade on from the end of the war. By now VW had over 30,000 employees. With their families they flocked to the Wolfsburg sports stadium. Singers and dancers from all over the world lent the event international glamour. And Heinrich Nordhoff used the opportunity to fire his “comrades-in-work” (as he always referred to the workforce) with pride and self-assurance.

There was reason enough. Volkswagen had become the largest motor vehicle manufacturer in Europe, and the billion-mark annual turnover figure had long been passed. With the Transporter, which had started production in March 1950, entry had been gained to the commer-

cial vehicle business. The Korean crisis, leading to a shortage of raw materials and a strong inflationary effect, in 1951/52 had left only a slight kink in the ascending curve of the Company. It was already exporting to over eighty countries and had started assembling knocked-down cars in Ireland, Australia, South Africa and Brazil. The foundation of the subsidiary Volkswagen do Brasil in 1953 was the decisive step in internationalisation.

A Supervisory Board now oversaw the business of the Volkswagenwerk which legally had the form of a limited liability company.

And the products received their first modifications: A synchromesh gearbox was introduced, on the saloon the rear “pretzel window” gave way to a single pane. And in 1955 the Karmann Ghia coupé appeared

whose southern chic had immediate appeal for the ladies.

The success totally vindicated Nordhoff. He had concentrated on “the” Volkswagen, the original model that was not even called Beetle until the sixties. The lean dog of 1945 had been rid of most of its fleas and was approaching an unprecedented maturity. That it remained – outwardly at least – what it was, was up to 1955 self-evident part of the strategy of reducing production costs by increasing unit production. Only later was this homogeneity to become a property in its own right, indeed a craze. And not to the detriment of the people for whom Nordhoff intended his car – the standard VW which in 1948 cost 5,300 hard-to-come-by deutschmarks was reduced by 1955 to 3,790 DM, a sum which the average employee at that time earned in nine months.



The quantity boom of the Volkswagen was one of a set of twins, its fellow being the export business. Long before the expression was coined the Beetle was a “world car”. Nordhoff promoted this: “Learn languages,” he would encourage young employees, “And you’ll see the world.” And with every new sales bridgehead grew the self-confidence in Wolfsburg and the gratification of many West Germans – “We are somebody in the world again.” Big words. Too big? They should be understood in the context of the time, with its atmosphere of a new beginning.

### 1961: Small stockholders celebrate too

When in December 1961 the five-millionth Volkswagen came off the line it was a symbol of the hopes and expectations of an entirely new group: the small VW stockholders. The Federal Government used the

overdue conversion of the Company into a joint stock corporation to undertake a partial privatisation. The shares were to be spread wide so that many savers could become co-owners. 40 per cent of the new capital stock of 600 million DM remained divided equally between the Federal Government and the State of Lower Saxony; the dividends from this have since been channelled into the Volkswagen Foundation, which uses them for the promotion of research and teaching.

The 1.5 million private subscribers – including 63,500 VW employees – made the right decision. The share price developed most satisfactorily, so much so that many a new stockholder cashed in instead of remaining a VW shareholder.

7,000 small stockholders came to the first Annual Meeting in Wolfsburg. They heard good news: In the current year of 1961 over a million Volkswagens would be produced for the first time, more than half of which were for export. The parent factory was no longer anywhere near big enough. Transporter production had been transferred to a new facility in Hanover in 1956, another “workbench extension” was the factory in Brunswick, and the latest new production facility had been opened in Kassel for the reconditioning of exchange units. A year later, in 1959, engine production was also transferred to

Hanover. In this way a specialisation and decentralisation had been set in motion which was to be logically pursued in the future. In 1959 and 1960 over a billion DM had been invested, not least in a new urban landmark for Wolfsburg, the thirteen-storey administration block of the Volkswagen factory.

It was a nice symbol of the extended horizons that had been opened up. In South Africa a production company had been set up, at Volkswagen do Brasil assembly was replaced by “real” production. With the founding of the distributing companies Volkswagen of Canada Inc. in 1952 and Volkswagen of America, Inc. in 1955 the offensive on the biggest automotive market in the world had begun, hitherto the undisputed domain of Detroit’s Big Four. It must have seemed a bit pathetic when a slip of a car in beetle-dress set out to conquer no less than the continent of North America. But a brief five years later the pitying smile seemed rather inappropriate, as the 500,000th Volkswagen rolled off the ship on the other side of the Atlantic.

More swiftly than anybody had thought, the Americans had taken this so totally different car to their hearts. A growing company of customers, tired of modish excesses in sheet-steel, turned thankfully to the funny little car from Germany and made it a member of the family



that “just happened to live in the garage”. Admittedly, a favourable rate of exchange (around four marks to the dollar) made a following wind for the westward trade – but this alone cannot explain the enthusiasm for the Beetle in America.

### 1965: The eight-figure number

In 1965, on 15th September to be precise, came the day: The statisticians now needed eight figures to express the total production of Volkswagens. Ten million cars with the two letters up front and on the hubcaps had now come off the lines. For the most part Beetles of course – the original VW “runs and runs and runs” as the promotion had it from 1962 on. But it no longer ran alone. The VW 1500 with notchback and later in estate form had appeared in 1961 – outwardly an anti-Beetle, but a close relative under the skin for all that. Too close, said some critics who had been hoping for more technical progress. But Nordhoff still saw in the Beetle concept the cornerstone of his factory. “It would be the mistake of our lives to try to alter this development by the merest fraction. We shall continue to build the Volkswagen 1200, and this car will continue to be the backbone of our production and the basis of our success.” Thus his message to all doubters in 1964.

These latter were nonetheless confirmed not many months

later: At the beginning of 1965 VW acquired Auto Union GmbH, which at that time belonged to Daimler-Benz. The company in Ingolstadt was not in particularly good shape, but recovery was in sight – and this with a range of cars that with water-cooled engine and front-wheel drive were and were to remain in stark contrast to the rear-engined uniformity of Wolfsburg. For the moment however they were lost in the shadow of the world-conquering Beetle, which had meanwhile gained a foothold in Mexico and overrun the entire North American continent.

In 1963 more Volkswagens were sold in the United States than at home in Germany; flourishing “grey market” exports of crafty dealers and private persons also played a part in this. And in 1965 sales over there reached 1,300 cars per day. (The New York auto importer Maxie Hoffman, who in 1950 had taken up the Beetle business offered to him, but soon gave it up again, at that time believed the little car from Wolfsburg to be capable of no more than 150 sales per month.)

Many Americans had become thoroughly addicted to the Beetle. "Any person who had never owned one could not understand why anybody would ever buy one. Anybody who did own one couldn't understand why everybody didn't," wrote Arthur Railton in his book "The Beetle".

Carl H. Hahn, from 1959 chief of Volkswagen of America, also did something hitherto quite unknown: advertising for the Volkswagen. The Doyle Dane Bernbach agency produced a campaign that made history. The turgid style of American motor manufacturers was countered with disarming understatements that conveyed honesty and credibility. And pert



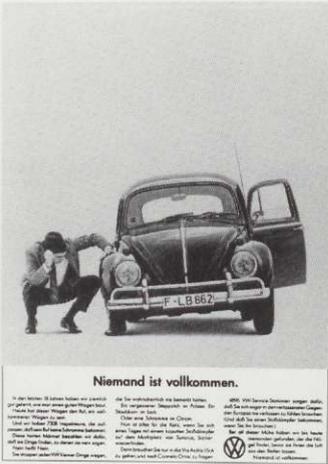
slogans that delighted not only the pros in the advertising industry but became party talk from Boston to Los Angeles. "Think small," Americans were encouraged; "Nobody is perfect," was remarked of the Beetle with a flat tyre. Back home too the Beetle advertising struck up this new tone. "It is

not a tragedy," ran one ad, "If after your fourth or fifth VW you decide to buy another make. You can always trade it in."

From 1964 on Beetles were produced in the new Emden factory and put straight on the boat for America. And the first Italian immigrant workers were brought to Wolfsburg. It was a rosy picture all round for Volkswagen. What could possibly go wrong?

**1971: After the hiccup**

When in the summer of 1971 the twenty-millionth VW took to the road, the jubilation was not unalloyed. True enough, the Volkswagenwerk was indubitably the biggest German company, with Group turnover of more than 16 billion DM. It produced over two million VWs a year, over 10,000 per day. But the after-effects of the shock of 1967 could still be felt. The much-admired German economic miracle had at that point received its first major setback, and all the signs pointed to recession. And however feverishly the Federal Government twiddled the controls, the reaction of the economy, pampered and lulled by the endless-seeming boom,



was lethargic. Volkswagen too experienced a painful hiccup in its progress. At the end of 1966 short-time working was announced for the first time ever, and the following year over 300,000 less VWs were built, despite the offer of a "bargain Beetle" for only 4,485 DM.

He who lies down gets kicked. In the middle of the troubles Beetle-boss Nordhoff was strongly attacked by Federal Finance Minister Strauß. Wolfsburg has slept, fulminated the Bavarian in Bonn, because there was still no successor for the original Volkswagen. And indeed, two years previously Nordhoff had blocked series start-up of a Beetle replacement

at the last minute. The veteran was still doing too well, and because the success of the VW 1500/1600 was no more than modest, the Beetle still, as one motoring magazine put it, "embodied the destiny of the Volkswagenwerk and was an essential component of the German economy."

Heinrich Nordhoff died in April 1968, leaving the unsolved problems to his successor Kurt Lotz. And a further legacy: The first big Volkswagen, the 411 that appeared in the autumn of that year. It could not compete – only 368,000 units were built, including the later 412. An expensive way of proving that the market was no longer in-

terested in rear-engined saloons.

But new, more timely things were on the way. It was under Lotz' leadership that the decision was made for the true Beetle successor, the Golf. And one year after the NSU takeover in 1969 the K 70, the last design from Neckarsulm, came off the line at the new VW factory in Salzgitter. This too, like the 411, was no hit; but with its front-wheel drive and water-cooled engine it was at least a modern car. Symbolically it formed the transition to the totally different VW generation of the seventies.

This was being worked on at full pressure in 1971; over 5,000 employees thinking and drawing in the recently opened Research and Development Centre in Wolfsburg. The Beetle too was modernised – with a sophisticated running gear from 1970 it was better than ever before. Thanks to the sales success of the Beetle the Volkswagenwerk in 1971 achieved its absolute production and employment peak. The town on the Mittellandkanal was meanwhile making strenuous efforts to get rid of its provincial image once and for all. A theatre was built, and contemporary housing complexes. It was not a bad place to live.



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safety and exhaust emission regulations made it more complex and more expensive. And the revaluation of the D-mark against the dollar decreased its export chances further.

The "Superbeetle" 1303 of 1972, whose drivers sat for the first time behind a curved windscreen, became at once the high point and the end point

of the model series. A few months previously, in February 1972, the Beetle had gone into the record books. When number 15,007,034 came off the line the Model T of Ford was beaten into second place for production figures. The happy occasion was, compared with celebrations of the Nordhoff era, rather a quiet affair. The Chairman of the Board of Management, Rudolf Leiding, Lotz' successor as of 1971, had other problems. The countdown for the Golf had to be speeded up at all costs. The situation was grave.

1973 was marked by a dramatic race against time. Conversion to the new, modern programme became a mighty effort without parallel – especially since, unlike Henry Ford in 1927 at close of production of the Model T, it was not possible to simply shut down the factory for the duration of the change-over. Punctual and problem-free start-up of the future front-wheel-drive generation of VWs was essential to survival. These cars were not only technically up-to-date and thus more market-oriented. They also broadened the range of model series and they were based on an ingenious modular system that embraced the subsidiary Audi NSU and promised major savings in production costs.

The first priority was to get the new basic models as fast as possible into the dealers' showrooms. The sequence began in May 1973 with the Passat, which was based on the Audi 80 and replaced the VW 1600. In the spring of 1974 there followed the Scirocco coupé, built by Karmann in Osnabrück, and shortly thereafter the number one hope, the Golf. One year later the Polo, a twin to the Audi 50, set a provisional final point. In 1975 the commercial vehicle range was extended upwards with the LT.

Very soon however a start was also made at VW on diversifying the selection within the series. Thus with the Golf GTI for example in the autumn of 1975 a sporting type of compact,

fast saloon was created which soon had numerous imitators. And a year after that, with the newly-developed small diesel engines for passenger cars, entirely new standards were set for economical yet lively cars.

Under the pressure of the new arrivals the Beetle had to retreat. The last to be produced at the home base of Wolfsburg came off the line on 1st July 1974. Only in Emden and a series of factories abroad did production continue. The increasing problems of exports to America faced the new Chair-

man Toni Schmücker – Leiding's successor from February 1975 – with a difficult decision: to manufacture over there, or not? In the spring of 1976 the Supervisory Board gave its agreement to the acquisition of an existing assembly plant in Westmoreland, Pennsylvania.

A difficult decision in a tight situation. Since 1973 VW had been obliged to cut its workforce by more than 30,000 and to work many short-time shifts between 1974 and mid-1975. But by October 1976 new workers were being taken on again; and the fast recovery, dubbed the "miracle of Wolfsburg", made it possible to redeem almost 700 million DM of losses

from the profits of 1976. And after two years of non-payment VW was again able to distribute a dividend of 5 DM per share.

# 1 Million Golf

## 1981: Full speed ahead on new roads

The new Volkswagen generation, headed by the Golf, took the market by storm. Sooner than expected the Beetle fell out of sight and out of mind – at least in Europe. When in November 1981 glasses were raised to the forty-millionth Volkswagen, the day when the last German Beetle came off the line in Emden lay almost four years in the past. Since then the original VW was built only overseas. The open version of the old-timer had been replaced in 1979 by the Golf Convertible. Meanwhile the modular principle that had proved itself from Polo to Passat was further refined. The notch-back versions Derby (1977), Jetta (1979) and Santana (1982) were added, and the diesel engine of the Golf was extended to the Passat which in autumn 1980 had its first model update. In 1979 the Transporter

Type 2, the almost continuous leader in its class throughout Europe, was presented in improved form. Unnoticed, since 1950 it had played a similar pioneer role to its stablemate the Beetle.

The success of the new model series was clear from the balance sheet: Sales of the parent company rose from 16.9 billion DM in 1976 to 26.4 billion DM in 1981, the capital investments of the Group grew to almost 5 billion DM per year. Additional capital had to be raised; the capital increase of 300 million DM to 1,200 million DM in 1978 was the largest transaction of its kind in the history of the German stock exchanges.

In April 1978 a cheeky Rabbit hopped hopefully across the American market – Golf production (Rabbit as it was known over there) began at the Westmoreland factory. It started up so well that in 1980 the plan for a second assembly facility in the United States – in the vicinity of Detroit – was already conceived. In South America VW moved into the truck business, taking over Chrysler Motors do Brasil and Chrysler

Fevre Argentina. But in Wolfsburg not just expansion but also diversification was the name of the game. The opportunity was grasped of acquiring a majority interest in the business machines and computer group Triumph-Adler – an involvement however which did not fulfil expectations and was ended in 1986.

The opening up of new markets was also served by a cooperation with M. A. N. from which a joint series of medium-range trucks issued. And a stir was caused by an agreement concluded in 1981 with the Japanese manufacturer Nissan providing for production of the VW model Santana in Japan. Why not beard the lion in its den, especially since VW was in any case already the biggest motor vehicle importer on the Japanese market?



## 1987: Fifty million Volkswagens

Fifty million cars: A production figure of this magnitude from one marque has not been achieved by any other European maker. Volkswagen AG (this shortened form has been in use for two years) reached it with its subsidiaries in the spring of 1987. The unforgettable Beetle alone accounts for 21 million, even though it took final leave of the European market in August 1985. But its equally "classless" successor, the Golf, is also represented with some 9 million units – and that after only thirteen years in production.

In the middle of 1983 Carl H. Hahn, until 1972 head of sales at VW and from 1982 the new chairman, and his team had presented the new Golf which looked distinctly more "grown-up" than its predecessor. It immediately became the top seller in the Federal Republic and many European countries. With its introduction VW also succeeded for the first time in wresting the advance in production technology from the Japanese. The sophisticated highly-automated final assembly in Hall 54 of the Wolfsburg factory, which made for easier working conditions and brought savings in manufacturing costs, became a Mecca for engineers the world over. A new research centre opened in 1982 will consolidate this lead.

The eighties initially brought problems for VW too. In Europe considerable heat was generated over the reduction of pollution from passenger cars. Germany was threatening to go it alone, and even when agreement was finally reached within the EEC, many potential car-buyers still held back in uncertainty. Others went over to diesel-engined cars – and here Volkswagen was able to capitalise on its broad range, as previously at the time of the first oil crisis.

But there was little in the way of compensation for the growing problems overseas. The North American business was suffering under the increasing onslaught of the Japanese; the second assembly plant in the



United States had to be relinquished before it had even started up. Inflation and government-imposed price freezes put a brake on sales in Mexico and drove the Brazilian subsidiary ever deeper into the cost squeeze. Losses at these subsidiaries and from the problems at Triumph-Adler reduced the already low domestic earnings to the point where no dividend could be paid in 1982 and 1983.

This did not however distract the eye for chances which can arise from other foreign involvements. Thus in 1986 Volkswagen took over the Spanish motor manufacturer SEAT, which had been building VW models in a cooperation agreement since 1983. This was for Volkswagen the key to a policy of expansion which made possible a thrust in employment and production. The Golf became the best-selling car in Europe, and the Volkswagen Group the fourth-largest passenger car manufacturer in the world. In addition Volkswagen established a joint venture in China,

the Shanghai-Volkswagen Automotive Company, which now assembles the Santana, and in 1986 entered a cooperation with Ford in Argentina and Brazil known as AUTOLATINA.

The broadening and renewal of the model range also proceeded apace: syncro (four-wheel drive for Transporter, Passat and Golf), sixteen-valve engine (for the Golf, Jetta and Scirocco) and G-charger (Polo) are keywords for the policy of technical perfection in large-series production. A new Jetta took its place beside its successful brother the Golf with greater-than-ever acclaim and became a best-seller in the USA. Volkswagen had long been able to offer a complete range of low-pollution cars, including versions of each series which satisfied the strict American regulations. For many older VWs it is possible to retro-fit an unregulated catalytic converter. All spark-ignition Volkswagens as of model year 1977 can be run on unleaded petrol.

From the first, painfully cobbled-together Beetle of 1945 to the Golf GTI 16V with its state-of-the-art technology has been a long road. Between the two are ranged 50 million cars with the VW logo, designed with skill and farsightedness, built with care and commitment. They have covered billions of miles, ferried people to work and to play, and carried loads without number.

Yet Volkswagen is more than this; it is one of the largest employers in the Federal Republic of Germany, with a social commitment which is exemplary. The fortunes of 280,000 people and their families at the numerous domestic and foreign locations are bound up with that of Volkswagen. In addition there are the many hundreds of thousands of employees in the supply industry and the authorised dealerships. The future of the Company and of all who are associated with it is a great responsibility for all VW employees.

Time rushes on, further millions are produced – "people's cars" in the sense demanded by their environment, in every vehicle class an optimum of technology and quality. "We are democratising progress," as Carl H. Hahn once said, "By offering solutions of a technical effectiveness no less perfect than those costing a great deal more." With this philosophy the next 50 million Volkswagens should be no less successful than the first.

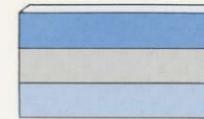
Urs Neumann





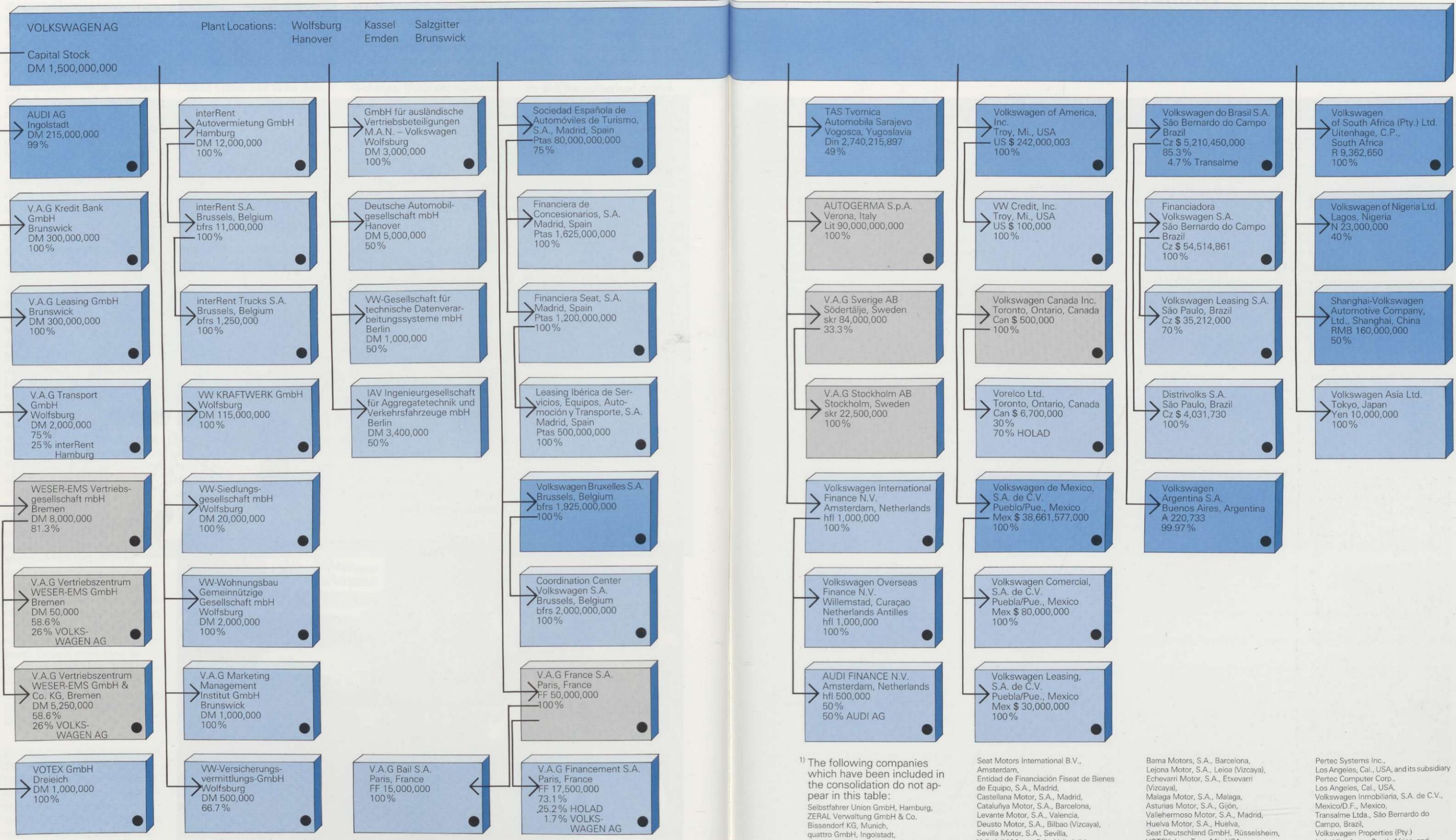
# The Major Companies within the Volkswagen Group

December 31, 1986



Producing Companies  
Distributing Companies  
Other Companies

● Companies included in consolidated financial statements<sup>1)</sup>



<sup>1)</sup> The following companies which have been included in the consolidation do not appear in this table:

Seat Motors International B.V., Amsterdam, Entidad de Financiación Fiseat de Bienes de Equipo, S.A., Madrid, Castellana Motor, S.A., Madrid, Cataluña Motor, S.A., Barcelona, Levante Motor, S.A., Valencia, Deusto Motor, S.A., Bilbao (Vizcaya), Sevilla Motor, S.A., Sevilla, Valladolid Motor, S.A., Valladolid, Manineda Motor, S.A., La Coruña, Leganes Motor, S.A., Leganes (Madrid), Valderribas Motor, S.A., Madrid,

Barna Motors, S.A., Barcelona, Lejona Motor, S.A., Leioa (Vizcaya), Echevarri Motor, S.A., Etxebarri (Vizcaya), Malaga Motor, S.A., Malaga, Asturias Motor, S.A., Gijón, Vallehermoso Motor, S.A., Madrid, Huelva Motor, S.A., Huelva, Seat Deutschland GmbH, Rüsselsheim, VOTEX, Inc., Troy, Mi., USA,

Pertec Systems Inc., Los Angeles, Cal., USA, and its subsidiary Pertec Computer Corp., Los Angeles, Cal., USA, Volkswagen Inmobiliaria, S.A. de C.V., Mexico/D.F., Mexico, Transalme Ltda., São Bernardo do Campo, Brazil, Volkswagen Properties (Pty.) Ltd., Uitenhage, South Africa, and its subsidiaries Volksprop Algoa Road and Volksprop Halfway House.

# Salient Figures of Major Subsidiaries and Affiliates

Producing Companies	Sales			Vehicle Sales <sup>1)</sup>			Production			Capital Investments			Workforce		
	DM million 1986	DM million 1985	Change %	Units 1986	Units 1985	Change %	Units 1986	Units 1985	Change %	DM million 1986	DM million 1985	Change %	Dec. 31 1986	Dec. 31 1985	Change %
AUDI AG	9,908	9,611	+ 3.1	351,321 <sup>2)</sup>	354,677 <sup>2)</sup>	- 0.9	383,519 <sup>3)</sup>	392,052 <sup>3)</sup>	- 2.2	885	943	- 6.2	39,843	36,393	+ 9.5
SEAT S.A. <sup>4) 5)</sup>	3,821	-	x	347,147	-	x	338,548	-	x	1,263 <sup>6)</sup>	-	x	23,591	-	x
Volkswagen Bruxelles S.A. <sup>4)</sup>	2,536	2,045	+ 24.0	192,753 <sup>2)</sup>	168,756 <sup>2)</sup>	+ 14.2	192,753	168,756	+ 14.2	127	33	x	5,636	4,883	+ 15.4
TAS Tvoronica Automobila Sarajevo	377	368	+ 2.4	32,145	28,102	+ 14.4	30,940 <sup>7)</sup>	26,312	+ 17.6	10	12	-16.7	3,006	2,934	+ 2.5
Volkswagen of America, Inc. <sup>4)</sup>	8,766	12,735	- 31.2	285,013	318,017	- 10.4	84,331	97,128	- 13.2	558	1,381	- 59.6	6,448	10,557	- 38.9
Volkswagen do Brasil S.A. <sup>4)</sup> of which car sector of which truck sector	4,325 (3,973) ( 352)	4,680 (4,295) ( 385)	- 7.6 (- 7.5) (- 8.6)	386,904 (371,735) ( 15,169)	354,744 (342,956) ( 11,788)	+ 9.1 (+ 8.4) (+ 28.7)	387,938 (372,693) ( 15,245)	357,969 (345,982) ( 11,987)	+ 8.4 (+ 7.7) (+ 27.2)	400 (391) ( 9)	520 (513) ( 7)	- 23.1 (- 23.9) (+ 35.2)	45,312 (42,564) ( 2,748)	46,396 (43,862) ( 2,534)	- 2.3 (- 3.0) (+ 8.4)
Volkswagen Argentina S.A.	368	429	- 14.3	23,073	21,442	+ 7.6	23,117	20,059	+ 15.2	14	17	- 20.3	3,454	3,374	+ 2.4
Volkswagen de Mexico, S.A. de C.V. <sup>4)</sup>	1,280	2,109	- 39.3	66,806	92,236	- 27.6	71,554	98,039	- 27.0	163	106	+ 53.3	14,007	14,632	- 4.3
Volkswagen of South Africa (Pty.) Ltd. <sup>4)</sup>	645	598	+ 7.8	37,993	33,625	+ 13.0	38,836	30,099	+ 29.0	8	84	- 90.0	5,830	6,010	- 3.0
Volkswagen of Nigeria Ltd.	118	726	- 83.7	2,744	20,671	- 86.7	3,747	20,829	- 82.0	5	12	- 58.3	2,046	2,976	- 31.3
Shanghai-Volkswagen Automotive Company, Ltd.	251	49 <sup>8)</sup>	x	8,471	1,682 <sup>8)</sup>	x	8,500	1,733 <sup>8)</sup>	x	46	24 <sup>8)</sup>	x	1,911	1,639	+ 16.6
<b>Distributing Companies</b>															
AUTOGERMA S.p.A.	2,665	2,737	- 2.6	147,457	158,668	- 7.1	-	-	-	2	6	- 65.2	317	298	+ 6.4
V.A.G France S.A. <sup>4)</sup>	2,514	2,353	+ 6.8	130,927	124,510	+ 5.2	-	-	-	269	270	- 0.4	995	969	+ 2.7
V.A.G Sverige AB	834	783	+ 6.6	36,255	33,953	+ 6.8	-	-	-	107	151	- 29.0	351	349	+ 0.6
Volkswagen Canada Inc. <sup>4)</sup>	1,294	1,559	- 17.0	45,579	47,751	- 4.5	-	-	-	28	14	x	691	590	+ 17.1
<b>Other Companies</b>															
V.A.G Leasing GmbH	1,120	960	+ 16.6	-	-	-	-	-	-	1,793	1,415	+ 26.7	297	268	+ 10.8
interRent Autovermietung GmbH <sup>9)</sup>	338	311	+ 8.6	-	-	-	-	-	-	224	250	- 10.4	1,547	1,501	+ 3.1
V.A.G Kredit Bank GmbH	215 <sup>10)</sup>	213 <sup>10)</sup>	+ 1.2	-	-	-	-	-	-	4	2	+ 95.4	302	270	+ 11.9

<sup>1)</sup>To the dealer organisation <sup>2)</sup>To Volkswagen AG <sup>3)</sup>Including 30,784 (33,440) Porsche cars <sup>4)</sup>And consolidated subsidiaries <sup>5)</sup>Included in the scope of consolidation since 1986 <sup>6)</sup>Including DM 1,141 million from the carry-forward of the company consolidated for the first time (incl. subsidiaries)

<sup>7)</sup>Incl. mini-assembly (previous year's figure adjusted) <sup>8)</sup>Abbreviated fiscal year from September 1, 1985 to December 31, 1985 <sup>9)</sup>And domestic subsidiaries <sup>10)</sup>Income from financing

## Europe Figures of Major Subsidiaries and Affiliates



*Volkswagens under stress –  
since 1982 Formula 3 racing cars  
with Golf GTI drive units  
have been proving their worth  
in hard racing conditions.*

*Audi 100 Avant – the big, luxurious, versatile saloon*

### **Still a high level of demand for automobiles**

In 1986 the economy in West European countries was chiefly characterised by the oil price plummeting and a significant drop in inflation rates due to falling import prices. Private consumption rose more than the gross national product particularly owing to the high level of demand for automobiles and almost everywhere it led to recovery for the industry.

In 1986 the number of new cars registered in Europe including the Federal Republic of Germany increased by 9.7% to 11.2 million units and there were increases in demand in virtually all the countries.

### **AUDI AG: The new Audi 80 was well received by the market**

AUDI AG, Ingolstadt, participated in the growth in the overall West German market for passenger cars. After a restrained trend in unit sales during the first months of 1986 the rest of the year saw a considerable recovery in Audi sales. The high numbers of orders received for the new Audi 80 was particularly pleasing. In West Germany the deliveries to customers amounted to 154,202, also as a consequence of higher demand for the Audi 100, and thus topped the previous year's figure by 12.4%.

Although the Audi 80 model change was extremely successful despite initial delay in supply, Audi sales in the export markets showed a 10.5% decline to 209,345 vehicles in 1986. At 126,599 automobiles (- 3.3%) it proved impossible to maintain the previous year's level in the European foreign markets.

In the USA it was the trend in the exchange rate for the dollar which compelled AUDI AG to increase prices four times. The position of Audi models with respect to rivals did not remain unaffected. The situation was also affected by the cases of so-called undesired acceleration on the



automatic versions of the Audi 5000 and Audi 5000 T, which received broad coverage by the media. The vehicles are now being provided with a shift-lock. With Audi vehicle sales at 59,798 units the deliveries to customers in this the largest export market in terms of quantity fell 19.3% short of the previous year's figure.

The company's production output came to 383,519 units (including 30,784 Porsche models) which was 2.2% less than the previous year. Although it managed to increase production of the Audi 80, Audi 100 and Audi 200, output for the other models slackened off.

As a result of the increase in demand within West Germany the share of production accounted for by catalytic converter vehicles rose to 47.2% (6.5%). Together with the diesel automobiles, low-pollution in Audi models achieved a 57.6% (18.9%) share in output. Worldwide, 54.0% (40.7%) of all Audi vehicles manufactured were fitted with a catalytic converter or a diesel engine.

By the end of 1986 the size of the workforce had reached 39,843 (+ 9.5%), a new peak. The rise in the number of staff was particularly due to the greater demand for employees for the launching of the new Audi 80, more staff-intensive production of upmarket vehicle features, the rise in the number of engines and standard parts manufactured within the interlinked production system as well as the lengthening of shifts for producing the new Audi 80 and the resulting increase in the amount of time off.

The volume of investment amounted to DM 885 million which was 6.2% less than the high previous level. The product-related measures taken were focused on the launching of the new Audi 80, which is setting standards within its class by introducing a considerable number of technical innovations. Within the scope of the company's model upgrading measures Audi has taken due account of the rise in demand for catalytic converter vehicles by introducing versions which are kinder to the environment. Other investments were due to the modernisation of production facilities.

The company's total sales amounted to DM 9,908 million, 3.1% up on the previous year. Whilst upmarket model features and the great increase in supplies of engines and standard parts to Volkswagen AG had the effect of boosting the sales figure, the lower unit sales and the higher value of the deutschmark detracted from the amount.

Moreover, net earnings were impaired by expenditure on the launching of the new Audi 80 so the previous year's level was not achieved by AUDI AG, with which Volkswagen AG has a profit assumption agreement.

### **V.A.G Leasing has improved on its leading position**

The expansive trend in business done by V.A.G Leasing GmbH, Brunswick, continued in 1986. To match this trend the company's capital stock was increased by DM 230 million to DM 300 million in December.

As a result of the 16.2% increase in the fleet to 188,993 vehicles the company continued to improve on its leading position in the Federal Republic of Germany.

The total value of sales rose by 16.6% to DM 1.1 billion. As in the two previous years V.A.G Leasing returned a loss for the fiscal year 1986 because the reducing-balance method of depreciation was applied in the year of acquisition and because of sales commissions.

### **interRent showed above-average growth**

With a closely knit network of 360 hire agencies and a fleet of about 12,000 rental vehicles, interRent Autovermietung GmbH, Hamburg, again managed to maintain its strong position as market leader in the Federal Republic of Germany despite the increasingly fierce competition.

In Belgium, rental business is handled by two subsidiaries, interRent S.A., Brussels, and interRent Trucks S.A., Brussels. Elsewhere in Western Europe and numerous other countries operations are run by independent interRent licensees. In the North American market the company is collaborating with Dollar Rent-A-Car System, Inc., Los Angeles. Together with these collaborating companies interRent offers customers worldwide around 85,000 rental vehicles through more than 1,700 agencies in 61 different countries.

In 1986 interRent had a share in the growth of the market, thereby achieving an 8.6% increase in sales to DM 338 million. The company showed a positive result.

### **V.A.G Kredit Bank: positive trend continues**

V.A.G Kredit Bank GmbH, Brunswick, engages in the financing of automobile purchases by consumers and in purchase financing for the V.A.G sales organisation in West Germany and other European countries in order to promote sales of Volkswagen and Audi products.

The high level of Volkswagen and Audi sales have led to a pleasing increase in business. Through marketing and special sales-promotion campaigns, receivables from customer financing rose to DM 1,472 million (+ 15.4%) by the end of 1986. Owing to the favourable sales situation the level of receivables from purchase financing for the V.A.G sales organisation was slightly above the previous year's level at DM 1,417 million.

In 1986 V.A.G Kredit Bank achieved a good result which was transferred to Volkswagen AG under the profit assumption agreement.

### **Satisfactory earnings situation at V.A.G Transport**

V.A.G Transport GmbH, Wolfsburg, provides services in international sea, land and air transport, forwarding, transshipment and stevedoring and advises the Volkswagen Group and third parties in handling transport operations. It coordinates the sea and air transport operations for the Volkswagen Group companies worldwide.

565,000 (603,000) complete vehicles and a large volume of parts were moved to their destinations. The majority of shipments took place on the basis of time charters and space freight contracts. V.A.G Transport also took advantage of services provided by shipping lines and airlines.

The company's earnings situation was satisfactory. The financial result was transferred to the shareholders under the profit and loss assumption agreement.

### **The SEAT S.A. – our colleagues in Spain**

Last year SEAT S.A., Madrid, increased deliveries of its own models to 222,006 automobiles (+ 19.5%). In the Spanish market it only barely managed to maintain its 12.2% (12.7%) share of the market, despite a 9.0% increase in sales. With exports there was 30.2% growth whereby the sales trend in Italy and France was particularly pleasing. The sales of Volkswagen and Audi models in Spain via the SEAT network of dealers totalled 49,920 units which was a 2.7% rise on the previous year.

# Other Major Subsidiaries and Affiliates

With total assets of \$1.1 billion

SEAT Malaga – a real family car



The most successful SEAT model – the Ibiza

Robot line at SEAT



During the year under report SEAT produced a total of 338,548 vehicles. 231,885 were accounted for by its own models and 106,663 were accounted for by Volkswagen automobiles manufactured under licence. The company's range of products comprises the following models: Marbella, Terra, Ibiza and Malaga. Polo, Passat and Santana vehicles are assembled under licence from Volkswagen AG. In December 1986 the low-priced subcompact family of Marbella/Terra was launched on the European markets under the SEAT trademark.

SEAT S.A. has a majority holding in 16 dealer companies, 3 financing companies and one leasing company, and abroad it has a majority holding in one financing company and the general importer Seat Deutschland GmbH. SEAT also holds shares in a non-consolidated insurance company and in an insurance broker company.

The workforce of the SEAT group amounted to 23,591 at the end of 1986; of these, 22,197 were employed by the parent company.

The company's investment served essentially to improve the range of products.

For 1986 SEAT S.A. returned a negative result, which fell within planned limits though.

To support the activities of Seat Deutschland GmbH, through which the SEAT vehicles are distributed, a financing and a leasing company were set up at the beginning of 1987.

Production facility of Volkswagen  
Bruxelles



### **Volkswagen Bruxelles: further increase in capacity**

As in previous years, Volkswagen Bruxelles S.A., Brussels, steadily increased production of the Golf and manufactured a total of 192,649 units of this model. Including 104 Ittis units the volume of production was 14.2% above that of the previous year. Considerable investments in the years to come will be aiming at a further increase in production.

Volkswagen Bruxelles achieved a good result in the year under report.

### **TAS: increase in production despite lack of foreign currency**

In spite of the difficult economic situation in general in Yugoslavia TAS Tvoronica Automobila Sarajevo, Vogosca, manufactured 30,940 vehicles (+ 17.6%). Of this volume 12,572 vehicles, of which 11,532 were Golfs, remained in the Yugoslavian market whilst the remainder of 18,368 units were manufactured for Volkswagen AG.

Including the imported vehicles the company sold 13,804 Volkswagen and Audi models in the domestic market (-16.4%). An increase in domestic sales was prevented by the inadequate volume of foreign currency available for importing CKD sets.

In the fiscal year TAS returned a profit which was higher than that of the previous year.

### **AUTOGERMA affected by bottlenecks**

The deliveries by AUTOGERMA S.p.A., Verona, to customers amounted to 148,200 Volkswagen and Audi models. Although the sales in Italy fell 2.8% short of the previous year's level and the share of the passenger car market accounted for by the Volkswagen Group fell to 7.8%, AUTOGERMA continued to be our most important distributing company in Europe. The main factor behind the drops in unit sales was supply bottlenecks at Volkswagen AG for the diesel versions, which are in high demand in Italy, and all the Golf models.

AUTOGERMA again showed a satisfactory result.

In order to tighten up Group structure Triumph-Adler Italia S.p.A., Milan, was already affiliated to AUTOGERMA in 1985 which was followed by the merger in 1986. By way of adjusting Volkswagen AG's commitments in the office machines sector the wholly owned subsidiary of Volkswagen AG, Triumph-Adler Distribuzione Italiana S.p.A., Milan, which was established in 1986, was sold to Olivetti at the beginning of 1987 after the takeover of the office machines business from Triumph-Adler Italia.

### **V.A.G France showed another increase in sales**

The V.A.G France S.A., Paris, increased its sales figures to 131,782 vehicles (+ 5.6%) during the past fiscal year despite some supply difficulties with diesel vehicles and the rise in the value of the deutschmark. Compared with the overall passenger car market, which expanded by 8.3%, the company was not quite able to maintain the previous year's share (decrease from 6.3 to 6.1%). Nevertheless, the Golf was once again the most popular Group model in France in terms of sales in 1986. The new Audi 80 was also well received by the French market so here orders received were well in excess of supply capacity.

V.A.G France closed the fiscal year 1986 with a profit.

### **V.A.G Sverige: largest automobile importer in Sweden**

V.A.G Sverige AB, Södertälje, again reinforced its position as the largest automobile importer in Sweden in 1986. The overall passenger car market was slightly larger than in the previous year and the share accounted for by Volkswagen and Audi vehicles amounted to 11.2% (11.7%). In the market for light commercial vehicles, which is characterised by an increase in competition, mainly from Japanese makes, the company was almost able to maintain its 29.1% (30.9%) market share by selling 6,065 units. All in all, 35,852 Group models were delivered to customers during the fiscal year. The good leasing business done by the company also contributed to this success.

V.A.G Sverige again returned a reasonable profit.

# Other Major Subsidiaries and Affiliates

(with field of activity)

## I. Distributing Companies

12 V.A.G Sales Centers  
in West Germany

Supplying V.A.G retailers with automobiles, spare parts and accessories from the Volkswagen Group, including service, advice, and training

WESER-EMS Vertriebsgesellschaft mbH, Bremen  
(and consolidated subsidiaries)\*)

Wholesaling in the Bremen sales region

GmbH für ausländische Vertriebsbeteiligungen  
M.A.N.-Volkswagen  
Wolfsburg

Holdings in various European M.A.N.-Volkswagen commercial vehicle importers

VW-Wohnungsbau Gemeinnützige Gesellschaft mbH  
Wolfsburg

Building, administering, modernising and maintaining housing at Volkswagen AG locations

VW-Siedlungsgesellschaft mbH  
Wolfsburg\*)

Building, purchasing and administering housing, business premises and other structures at Volkswagen AG locations

VW-Versicherungsvermittlungs-GmbH,  
Wolfsburg

Acting as an insurance broker in providing all kinds of cover in West Germany and abroad, including certain services

VW-Gesellschaft für technische Datenverarbeitungssysteme mbH  
Berlin

Software research and development, consultancy services

IAV Ingenieurgesellschaft für Aggregatetechnik und Verkehrsfahrzeuge mbH  
Berlin

Research and development work in the field of automotive engineering

Innovationsgesellschaft für fortschrittliche Produktionssysteme in der Fahrzeugindustrie mbH  
Berlin

Research and development of advanced production systems, particularly for the automobile industry

Volkswagen Bordnetze GmbH  
Berlin

Wiring loom production for the Volkswagen Group

## II. Other Companies

### 1. West Germany

V.A.G Marketing Management Institut GmbH, Brunswick\*)

Providing training and follow-up training for proprietors and managers of our associates within the V.A.G sales organisation

VOTEX GmbH  
Dreieich

Developing, manufacturing and dealing in automobile accessories; acting as purchasing agents for Volkswagen AG in Austria and Eastern Europe

VW KRAFTWERK GmbH  
Wolfsburg\*)

Generating electricity and heat at the combined heating and power stations in Wolfsburg, Kassel and Hanover, as well as supplying Volkswagen AG and others with energy

Deutsche Automobilgesellschaft mbH  
Hanover\*)

Research and development work in the fields of electrical engineering and electrochemical storage systems

### 2. Europe

HOLAD  
Holding & Administration AG  
Basle, Switzerland

Investing in domestic and foreign companies, portfolio and property management

Volkswagen International Finance N.V.  
Amsterdam, Netherlands  
(and consolidated subsidiaries)

Raising of long-term capital on behalf of Volkswagen Group companies

Coordination Center  
Volkswagen S.A.  
Brussels

Providing services for the Group

\*) There is a profit assumption agreement with these companies.

# North America

*The Fox – not only the price is attractive*



## **New competitors in the small car sector**

In the USA the slight upward trend in the economy, which had set in during the second six months of 1985 and was sustained by private consumption as a result of the increase in income in real terms and higher employment, continued in 1986. On the other hand, investment and industrial production fell short of expectations. The 2.5% increase in gross national product in real terms fell just short of the previous year's level. The rate of growth in the Canadian economy also slowed down as a

result of lower investment and declining exports.

In the American automobile market, competition increased considerably owing to the further expansion of capacity by Japanese makers and the increasing number of cooperation agreements, but also because of the presence of new competitors in the small car sector. The 5.0% expansion in the overall passenger car market in the United States in 1986 was mainly due to the importers who managed to increase their market share to 28.0% (26.2%) by achieving a 12.1% rise in sales. Sales by domestic manufacturers were only 2.5% above those of the previous year despite substantial sales promotion campaigns.

Vehicles in the compact car class are enjoying more and more popularity. During the year under report their share of the overall US market was already nearly 40%. A Korean manufacturer was particularly successful in this segment of the market although it has only been operating in the

*Latin America*  
*Volkswagen of America*

United States since the spring of 1986. The Koreans had already managed a good entrance to the Canadian market. For this reason Volkswagen of America launched the low-priced Fox on the North American market in spring this year in order to secure its position against competitors – the Fox is an American version of the vehicles being manufactured by Volkswagen do Brasil under the names Voyage and Parati.

After the record sales result of 1985 a normalisation of demand has now set in on the Canadian automobile market. In the past fiscal year, passenger car sales were 4.0% below the comparable previous year's figure. Importers were somewhat more affected than the automobile companies manufacturing in Canada because the deterioration of the exchange rate for the Canadian dollar made it necessary to introduce price increases, which were drastic in some cases.

**Volkswagen of America: production of the Jetta launched**

Although Volkswagen of America, Inc., Troy, Michigan, had to increase the prices of vehicles several times because of the drop in the exchange rate, there was only a slight decline in deliveries to customers, namely 0.4% to 217,228 vehicles. In fact, it was particularly the Jetta (+ 12.0%) which, by selling the most models of the Volkswagen imports, contributed to the 2.0% rise in imports compared with 1985. Deliveries of Audi vehicles to customers declined by 19.3% to 59,798 vehicles, particularly as a result of the lower sales of the Audi 5000. Volkswagen of America sold a total of 277,026 units.

To satisfy the high demand for the Jetta and to improve utilisation of capacity this model has also been assembled at the Westmoreland plant since October 1986. The bodyshells are purchased by Volkswagen de Mexico under the Group interlinked production system. Owing to the deterioration in US Golf sales, the company's production saw a 13.2% decrease to 84,331 vehicles.

In the US market, Volkswagen of America decided not to renew contractual relations with the VW/Audi wholesaler Riviera Motors, Inc., Oregon, as of December 31, 1986 by mutual agreement, the purpose being to tighten up distribution activities. This measure is aimed at having a direct influence on marketing and service provided by dealers in this region and to utilise opportunities for rationalisation in order to reduce costs.

Owing to the expansive trend in leasing business in North America and in order to improve internal procedures, the shares in Volkswagen of America were rearranged in this area. The business pursued by Volkswagen Financial Corporation was transferred to VW Credit, Inc. as of June 30, 1986 and Vorelco, Inc. was merged with Volkswagen of America as of December 31, 1986. With the growing volume of business 1987 will see the opening up of new sources of refinancing. We plan to set up a subsidiary of VW Credit, Inc. specifically for the purpose of handling future financing operations.

In connection with the transfer of the Triumph-Adler shares to Olivetti Holding B.V., Amsterdam, the companies belonging to the Triumph-Adler North America group were restructured and sold to Olivetti and in one case to a competitor operating in the communications sector.

The company showed a positive result for the past fiscal year.

*A compact model on the North American market – the Golf GT*



**Volkswagen Canada: expansion in interlinked production**

As with Volkswagen of America, Volkswagen Canada Inc., Toronto, raised its prices for vehicles on several occasions during 1986 and the company's trend in unit sales was not unaffected. The sales of Group models to customers amounted to 43,165 units, which was 7.8% short of the previous year's record result. For the Volkswagen models there was a 7.0% decline in sales and for the Audi models a 12.3% decline. However, with a 3.9% share of the passenger car market the company was still the fourth largest automobile importer in Canada and it was particularly the Jetta which made a major contribution.

At the Barrie/Ontario plant production of aluminium wheels was further increased by more deliveries for the North American interlinked system and by commencement of deliveries to US automobile manufacturers. In addition the company set up production of exhaust cleaning systems for automobiles during 1986.

The result for Volkswagen Canada was positive.

# Latin America



*Passat/Santana – also a success on the Brazilian market*

Trucks from the range  
of Volkswagen do Brasil



In Brazil the economic environment of the year under report was characterised by the Cruzado Plan introduced in February 1986. Among other things it entailed currency conversion from the cruzeiro to the cruzado on the basis of 1000 : 1, the fixing of the exchange rate against the US dollar, the abolition of monthly adjustments for inflation, and the most important measure which was to curb inflation by freezing prices, wages and salaries. The price-freeze was of far-reaching importance to the entire Brazilian automobile industry. During the following months, prices, which until then had not been covering costs, triggered off unhealthy demand for automobiles. This boost in demand coupled with the interrupted provision of parts by the supply industry led to long delays in delivery on the part of manufacturers.

In order to check the uncontrolled economic growth and reduce the public debt the Brazilian government issued a series of price increases towards the end of the fiscal year. Of the 80% increase in vehicle prices approved the State collects 60% in the form of a tax increase. The other 20% goes to the automobile manufacturers who still have to pass on part of this to their suppliers.

In Argentina there was delay in the stability programme introduced in mid-1985 – the so-called Plan Austral. So far the plan has been unable to create any lasting economic turnaround. The package of measures mainly comprised a strict freeze on prices and wages, the introduction of a new currency called the austral and regulation of the capital market. Despite the success with combating inflation achieved at the beginning and a temporary economic upturn it was impossible to convert the recessional trend, which has been going on for over five years now, into growth.

After the overall economic situation in Mexico had become more critical during the first six months of 1986, particularly owing to the declining oil prices and the consequences of the earthquake the second six months also showed no signs of the economy stabilising. The new agreements with the International Monetary Fund which, among other things, provided for a coupling of granted loans to the trend in the oil price and to overall economic growth rates, still showed no positive effects in 1986.

### Volkswagen do Brasil: earnings situation unsatisfactory

Volkswagen do Brasil S.A., São Bernardo do Campo, achieved a sales volume of 386,904 vehicles (+ 9.1 %) in 1986. With 315,097 passenger cars and light commercials sold in Brazil the company showed a 17.4% rise and therefore increased its market share to 40.0% (38.3%). In the 6 to 22 t truck sector Volkswagen do Brasil managed to increase its domestic unit sales by 41.5% to 14,518 vehicles and thus enlarged its market share in this segment to 26.6% (23.7%).

The company's total imports fell by 24.7% to 57,289 vehicles, particularly owing to the declining deliveries to Nigeria. The fixing of the exchange rate between the cruzado and the US dollar also had a detrimental effect.

The size of the workforce at Volkswagen do Brasil was reduced by 2.3% to 45,312 but in spite of this the company managed to increase production from 357,969 to 387,938 vehicles. Exports were also prepared for the North American market and these included deliveries of the Voyage and Parati models, which are distributed under the name of Fox in North America, and the 11 t and 13 t trucks under a cooperation agreement concluded with the leading American truck manufacturer Paccar.

In accordance with Brazilian law the capital stock was raised by Cz \$ 3,579 million to Cz \$ 5,210 million by converting reserves which had been created to take account of inflation.

The price-freeze imposed in the first quarter of 1986 did not allow the company to cover its costs and led to serious consequences although Volkswagen do Brasil made a great effort to counteract this situation by tightening up and optimising its range of products. One measure with this aim was the phasing out of Beetle production in October 1986. This ended an era which had lasted 27 years, in which 3.3 million units of this model were produced in Brazil.

*The versatile Passat estate has also been available since 1986 in Mexico, where it is known as the Corsar.*

Despite the good level of sales and further rationalisation measures Volkswagen do Brasil showed a negative result.

During 1986 Volkswagen do Brasil dispensed with its non-automobile commitments. This involved the company's interests in the firms "Companhia Vale do Rio Cristalino" (livestock breeding project) and "Atlas Frigorifico" (slaughterhouse), in which Volkswagen do Brasil has to temporarily retain minor shares to comply with legal requirements. By disposing of these holdings Volkswagen do Brasil has taken a major step in concentrating on automobile business in order to meet future requirements arising from the cooperation activities.

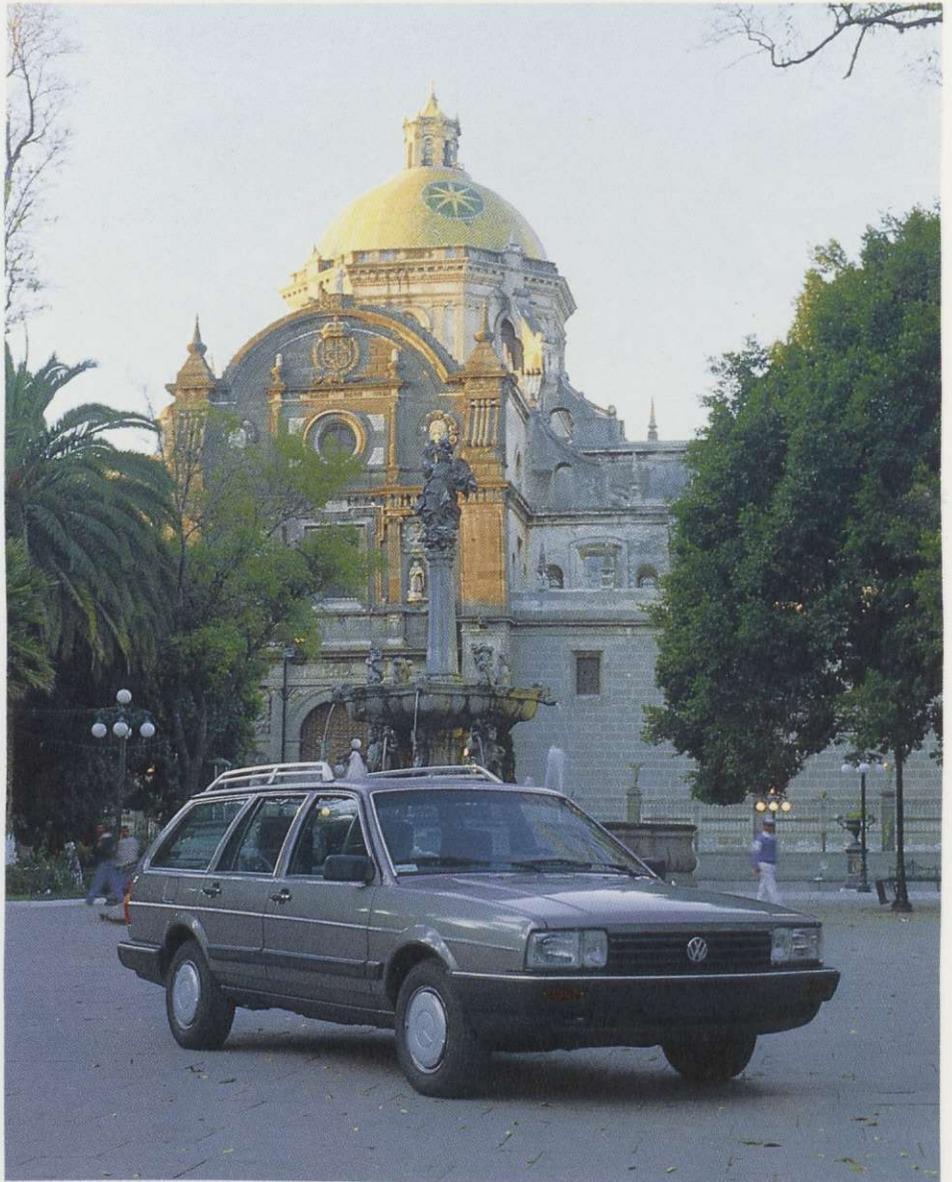
The 10% share in the capital stock in Volkswagen do Brasil held by the Monteiro Aranha group was taken over by Volkswagen as of December 10, 1986. The price paid consists of cash compensation as well as ordinary shares from the Volkswagen shares held by the Company. We have had friendly relations with the Monteiro Aranha group from the very first day of our Brazilian commitment and will continue to do so as a result of the group's interest in Volkswagen AG. In Brazil the group has rendered Volkswagen great services.

### **Volkswagen Argentina: good level of Gacel sales**

Volkswagen Argentina S.A., Buenos Aires, managed to virtually maintain its share of the passenger car market by attaining 15.6% (15.7%). Including the light commercial vehicles, sales during the year under report rose by 7.6% to 23,073 units.

In line with this trend, production volume amounted to 23,117 automobiles, which was 15.2% above the previous year's figure. At the end of 1986 the company employed a total of 3,454 (+ 2.4 %).

As a result of assistance from the parent company Volkswagen Argentina returned a profit.



## **Volkswagen de Mexico successfully defends market leadership**

In a declining overall market Volkswagen de Mexico, S.A. de C.V., Puebla/Pue., sold a total of 67,026 vehicles in the year under report. In particular the drop in unit sales during the first few months of the year led to a 25.4% decline for the year as a whole. Nevertheless the company's 34.2% share in the passenger car market was above the previous year's figure (31.5%). The Golf successor, production of which was launched at the end of 1986, and the Jetta successor model, whose production start-up is planned for the first half of 1987, are aimed at further reinforcing the market position of Volkswagen in the Mexican market.

To adjust to the declining trend in unit sales, production was reduced by 27.0% to 71,554 vehicles. However, the size of the workforce fell by only 4.3% to 14,007 company staff because the production cutback in vehicle manufacture was largely compensated for by the considerable increase in interlinked production deliveries to Volkswagen AG, Volkswagen of America and Volkswagen do Brasil. In manufacturing engines, axles and pressed parts for the Group's interlinked production system destined for the USA and Europe the company made its contribution towards ensuring that the rise in worldwide demand for Volkswagen and Audi models was satisfied more adequately by the supply of assemblies and parts.

For the past fiscal year Volkswagen de Mexico returned a positive result.

## **Volkswagen of South Africa improves on market position**

The situation in South Africa remained difficult in 1986. International pressure and the internal political situation had a severe detrimental effect on the country's economy. It was particularly the withdrawal of foreign capital which handicapped the economic trend. The further drop in the value of the South African currency has led to considerable cost increases in the automobile industry, which is dependent on imports. The resulting price increases impaired demand for automobiles, along with the general reluctance to buy. New cars registered in 1986 were 14.6% below the already extremely low level of the previous year.

Volkswagen of South Africa (Pty.) Ltd., Uitenhage, C.P., managed to increase its deliveries to customers by 5.0% to 36,182 vehicles, despite an overall market which showed a decline. This favourable trend mainly resulted from the high level of demand for the Jetta, sales of which were 50% up on 1985. The company's share of the passenger car market improved by 3 percentage points to 17.4%. Deliveries of the Commercial rose by 21.0% to 4,781 units. During the fiscal year production totalled 38,836 vehicles, which was 29.0% more than in 1985. The size of the workforce was reduced by 3.0% to 5,830.

Owing to the high burden of costs and the drop in the exchange rate Volkswagen of South Africa showed a small loss in its financial statements.



*Golf production in South Africa*

**Volkswagen of Nigeria: foreign exchange situation forces production standstill**

The drastic drop in the price of oil has continued to detract from the economic situation in Nigeria. The lack of foreign currency prompted the government to extend the cutback measures and import restrictions introduced in 1985. At the end of September 1986 a parallel foreign-exchange market was introduced to replace the previous system of issuing import licences. The official split in the exchange rate amounted to a drastic depreciation in the value of the naira, thus causing prices for imported goods to rise by up to 300 %.

As a result of the critical foreign-exchange situation Volkswagen of Nigeria Ltd., Lagos, obtained only about 16% of the previous year's licensed volume. The consequence was a six-month production standstill due to lack of materials lasting from the end of January to the beginning of August 1986. However, after resumption of production, import facilities only permitted single-shift operation at a reduced level. This was why vehicle production amounted to only 3,747 vehicles, 82.0 % down on the previous year.

With 2,217 units, the company's deliveries of passenger cars to customers declined by 87.9% in a severely dwindling overall market. In 1985 assembly of light commercials was commenced and in the year under report 871 vehicles were sold (- 62.3%).

Wolfsburg, March 19, 1987

The Board of Management

The size of the workforce was reduced by 31.3 % to 2,046 owing to the reduced level of production.

Despite the low volume of business and the economic difficulties, Volkswagen of Nigeria managed to close the fiscal year with a slightly positive result.

Apart from the traditional automobile markets, the Volkswagen Group is present in Asia. Since February 1984 the Santana, which is being built by our licensee Nissan, is being sold in Japan. In the People's Republic of China Santana models have been assembled since 1983 under a trial assembly agreement in collaboration with our counterparts, Shanghai Tractor and Automobile Corporation, Shanghai.

**Successful joint venture in China**

The Chinese economy saw further liberalisation in 1986. Economic growth was considerable so political measures in this field were centered on reducing the balance of trade deficit.

After setting up the subsidiary Shanghai-Volkswagen Automotive Company, Ltd., Shanghai, together with three Chinese counterparts, the new company produced 8,031 Santanas during the second year of its business operation. The volume of production was therefore well above the

target which had been originally set for the period. The company also assembled 369 Passat Variants and 100 Audi 100 models. Unit sales totalled 8,471 passenger cars.

The building up of the joint venture made considerable progress in 1986. To finance investments the shareholders introduced a further portion of capital contributions as planned in June 1986.

The result was positive so it was possible to offset the losses of the previous year occurring during the company's start-up phase.

**Nissan assembly in Japan**

In the Japanese market which is dominated by domestic manufacturers the Volkswagen Group delivered 23,570 Volkswagen and Audi vehicles to customers (+ 29.4%). In addition, 6,883 Santana models were sold by Nissan and our imports agent Yanase. The Volkswagen Group runs a consultancy office in Japan called Volkswagen Asia Ltd., Tokyo. The company's main tasks include securing and improving Volkswagen import business and assisting the Nissan company with distributing the Santana models manufactured under licence.

Enthusiastic  
Performance  
and More



*The vivacious Polo Coupé GT*



Volkswagen commercial vehicles

*Faint handwritten notes in light blue ink, including words like 'Party-service', 'Taxi', and 'Ambulance'.*

# Financial Statements and Notes

# Notes on the Financial Statements of the Volkswagen Group

## Consolidation Principles

### Scope of Consolidation

According to policy our scope of consolidation included all Group companies in which Volkswagen AG has a direct or indirect interest of over 50%. Apart from Volkswagen AG there were 19 German Group companies and 55 foreign Group companies. These companies are identified in the chart of major Volkswagen Group companies on pages 58 and 59. The following companies were incorporated into the

consolidated financial statements for the first time in the year under report:

Sociedad Española de Automóviles de Turismo, S.A. (SEAT), Madrid  
 Seat Motors International B.V. (SMI), Amsterdam  
 Financiera de Concesionarios, S.A. (FICONSA), Madrid  
 Financiera Seat, S.A. (FISEAT), Madrid  
 Leasing Ibérica de Servicios, Equipos, Automoción y Transporte, S.A. (LISEAT), Madrid  
 Entidad de Financiación Fiseat de Bienes de Equipo, S.A. (FISEAT-EQUIPOS), Madrid  
 Castellana Motor, S.A., Madrid  
 Cataluña Motor, S.A., Barcelona  
 Levante Motor, S.A., Valencia  
 Deusto Motor, S.A., Bilbao (Vizcaya)  
 Sevilla Motor, S.A., Sevilla  
 Valladolid Motor, S.A., Valladolid  
 Marineda Motor, S.A., La Coruña  
 Leganes Motor, S.A., Leganes (Madrid)  
 Valderribas Motor, S.A., Madrid  
 Barna Motors, S.A., Barcelona  
 Lejona Motor, S.A., Leioa (Vizcaya)  
 Echevarri Motor, S.A., Etxebarri (Vizcaya)  
 Malaga Motor, S.A., Malaga  
 Asturias Motor, S.A., Gijón  
 Vallehermoso Motor, S.A., Madrid  
 Huelva Motor, S.A., Huelva  
 Seat Deutschland GmbH, Rüsselsheim

Coordination Center Volkswagen S.A., Brussels

The acquisition of SEAT S.A. was completed on June 18, 1986 by the transfer of 51% of the shares from the previous owner, Instituto Nacional de Industria (INI), Madrid, to Volkswagen AG and the role of corporate management was taken over by the Group. For this reason the Group result has only been affected by the loss for the part of the year since the acquisition date (date of initial consolidation). However, the other items in the statement of earnings, which applied to the whole of the fiscal year, were transferred to the consolidated financial statements; an adjustment item was created in respect of the pre-acquisition loss which was included in the initial consolidation. At the end of 1986 the Group acquired another 24% of the shares

so Volkswagen AG now has a 75% interest in SEAT S.A. Despite its interest in SEAT, INI no longer participates in the company's result.

Coordination Center Volkswagen S.A., Belgium, was founded during the year under report and has commenced business. The object of this company is essentially the financing of investments in Belgium and centralising intra-Group activities. The company is currently involved in investing liquid assets and settling payments between Volkswagen AG and Volkswagen Bruxelles S.A.

TATRIUMPH-ADLER AG, Nuremberg, was sold along with eleven subsidiaries to Ing. C. Olivetti & C., S.p.A., Italy, and was no longer included in the scope of consolidation as of September 1, 1986. With the exception of Triumph-Adler North America, Inc., Pertec Systems Inc. and Pertec Computer Corporation the other five companies in the Triumph-Adler North America group left the scope of consolidation during the fiscal year because of the sale to Olivetti and other purchasers. Having been re-named Pertec Information Systems, Inc., Triumph-Adler North America, Inc. and Vorelco, Inc. were merged with Volkswagen of America, Inc. to take effect as of December 31, 1986. Volkswagen Financial Corporation was merged with VW Credit, Inc. Triumph-Adler Italia S.p.A., Milan, was merged with AUTOGERMA S.p.A., Verona, as of December 27, 1986. Companhia Vale do Rio Cristalino also left the scope of consolidation as a result of sale.

Two German and thirteen foreign Group companies were not included in consolidation. The German companies were:

Auto Union GmbH, Ingolstadt  
 NSU GmbH, Neckarsulm

The overall picture of the assets and earnings situation of the Group is not affected by the exclusion of these two German companies because they do not conduct any or much business and their total volume is negligible. The other foreign companies are also of minor importance.

### Form of Presentation and Valuation

In preparing the consolidated financial statements we have, as in previous years, made it our policy to take into consideration the Schmalenbach-Gesellschaft study group recommendations on global financial statements. The manner in which the financial statements are presented complies with the requirements laid down by the former version of the German Corporation Law. In the balance sheet we indicated the changes in fixed assets and investments, and the statement of earnings was prepared in the fully consolidated, detailed form. Certain items have been reclassified to fall in line with Group requirements. As a result of the increasing importance of leasing and rental business for the Volkswagen Group we have, as in the previous year, shown the assets hired out as a separate item. Additions and disposals as well as depreciation and transfers were referred to in a balance-sheet foot-note. On account of their special nature we define additions of assets rented out no longer as Group investment. The valuation principles applied to fixed assets and investments remained the same. On account of legal restrictions placed on the capital of non-profit companies, the reserves and the undistributed portion of the net earnings available for distribution of one Group company have been allocated to undetermined liabilities in the consolidated balance sheet.

As in previous years, for consolidation purposes the financial statements drawn up by the consolidated foreign companies in accordance with respective national regulations have been prepared in accordance with uniform accounting and valuation principles in compliance with the Corporation Law and audited in this form.

### Translation of Currencies

Additions to fixed assets and the amounts brought forward of companies consolidated for the first time were translated at the average rates for the months of acquisition, whereas depreciation and disposals were translated at middle rates weighted in line with the monthly additions (historical rates).

Loans with an initial term of four years or longer were translated at the middle rate for the balance-sheet date, but we have translated the other financial investment items at the rates applied on the date of acquisition and carried them forward on this basis.

The other asset items, and debts, were translated at the middle rates for the balance-sheet date.

With the exception of items where the historical rates for fixed assets and investments were applied for translation purposes (depreciation, gains or losses on disposals), we have translated expenses and income in the statement of earnings at the average monthly rates for the fiscal year. Net earnings, on the other hand, have been translated at the middle rates for the balance-sheet date.

Differences arising from the translation of balance-sheet items have not affected net earnings but have been allocated direct to Other Reserves. All in all they were negative. Any translation differences arising from the use of differing exchange rates in the statement of earnings were balanced out before the profit on the year was calculated and had no effect on the result.

### Capital Consolidation

Capital was consolidated by dividing up the differences into adjustment items from initial and subsequent consolidation. In this way, acquisition costs of interests in Group companies have been set off against the capital to be consolidated available at the time the interests were acquired. The resulting differences arising from initial consolidation are shown separately either as a special item of fixed assets and investments on the assets side, or under consolidated reserves on the stockholders' equity and liabilities side, as the case may be.

Other Reserves include:

- Unappropriated earnings of Volkswagen AG
- Adjustment items from subsequent consolidation together with the reserves of the other consolidated companies and the value adjustments in respect of consolidated companies, insofar as they were not deductible from the differences arising from initial consolidation shown on the assets side
- Intra-Group profits resulting from current or fixed assets
- Differences due to the translation of foreign financial statements at different exchange rates.

In addition, the net earnings available for distribution of the Group companies – less sums earmarked for distribution to stockholders outside the Group – have been transferred to Other Reserves.

We have deducted from the other reserves amounts equalling the parent company's income from trade investments and listed them separately in the consolidated financial statements as required. The difference between the Group's net earnings and net earnings available for distribution of Volkswagen AG plus the minorities' shares in the Group result has been transferred to Other Reserves. This means the changes in the Group result arising from consolidation are balanced out so that the consolidated net earnings available for distribution are equal to the net earnings available for distribution of Volkswagen AG.

Ascertainment of the minority interest in consolidated foreign subsidiaries was based on the financial statements translated into DM, valued in accordance with uniform valuation principles and adapted to the generally accepted accounting principles. Differences arising from currency translation in the process of consolidation have been apportioned to minority stockholders on a pro rata basis.

## Balance Sheet

### Assets

**Property, Plant, Equipment and Intangible Assets** was again assessed at acquisition or manufacturing cost minus regular depreciation. Extraordinary depreciation was charged by the German companies in accordance with the tax regulations. It was particularly consolidated companies abroad which made use of extraordinary depreciation for economic reasons.

The net book value of property, plant and equipment rose by DM 1,718 million to DM 10,458 million compared with the previous year. There were additions amounting to DM 5,027 million whilst depreciation, disposals and transfers totalled DM 3,309 million. Additions were 60.5% up on the previous year and 45.4% of them were accounted for by Volkswagen AG, 24.8% by the SEAT group and 17.4% by AUDI AG. Apart from the acquisition of SEAT the main emphasis of investment was on developing the range of products and further modernisation of the plants. Disposals of property, plant, equipment and intangible assets were particularly due to the sale of the TA Triumph-Adler group.

**Investments** rose by DM 655 million to DM 1,098 million compared with December 31, 1985. The increase was chiefly due to the addition of 5% of the shares of Ing. C. Olivetti & C., S.p.A., which was shown under the item **Investments in Subsidiaries and Affiliates**. Above all this item includes Volkswagen AG's shares in Shanghai-Volkswagen Automotive Company, Ltd., the West German sales centers, V.A.G Sverige AB, Deutsche Automobilgesellschaft mbH and TAS Tvoronica Automobila Sarajevo.

**Other Investment Securities** chiefly shows securities held by Volkswagen of South Africa.

**Loans Receivable with an Initial Term of Four Years or Longer** consisted predominantly of loans granted by V.A.G France, Volkswagen AG and Volkswagen of America. Interest-free and low-interest loans are shown at cash value, as in previ-

ous years. Discounts are shown under write-downs. Values of loans remained the same taking into consideration the provision for write-downs which has to be eliminated on account of redemptions.

**Other Investments** pertained mainly to the amounts which had to be raised for compulsory loans in Brazil.

Compared with the previous year the net book value of **Leasing and Rental Assets** rose by DM 389 million to DM 4,106 million. Additions reached DM 2,738 million in the past fiscal year and resulted particularly from replacements to the leasing and rental vehicle fleet owned by V.A.G Leasing GmbH, Volkswagen of America and interRent Autovermietung GmbH. Depreciation, minor transfers and disposals, the latter being particularly due to the sale of used leasing and rental vehicles, totalled DM 2,351 million.

**Adjustment Items Arising from Initial Consolidation** on the assets side have risen chiefly owing to the purchase of SEAT S.A. The figure represents the goodwill on the date of initial consolidation. As at December 31, 1986 the item mainly comprised the differential amounts arising from the consolidation of AUDI AG and interRent Autovermietung GmbH, reduced by write-downs where necessary.

**Inventories** increased by DM 499 million or 7.9% compared with the previous year to DM 6,783 million. This rise was particularly due to the inclusion of the SEAT companies in the consolidated financial statements for the first time and increases on the previous year at Volkswagen do Brasil, Volkswagen AG, AUDI AG and Volkswagen Canada Inc. There were decreases particularly because the TA Triumph-Adler group was no longer a member of the Volkswagen Group.

**Advance Payments to Suppliers** essentially concerned the SEAT companies, Volkswagen do Brasil and Volkswagen AG.

Of the **Trade Accounts Receivable** 33.5% pertained to the financial statements for domestic Group companies and 66.5% to

foreign Group companies.

Most of the **Trade Acceptances** were held by the SEAT group. Acceptances were also held by V.A.G France, Volkswagen Argentina and Volkswagen AG.

**Cash in Banks** rose by DM 4,254 million on the previous year to DM 8,503 million. The increases were essentially accounted for by Volkswagen AG, V.A.G France, AUDI AG and the inclusion of the SEAT companies for the first time. Decreases, on the other hand, were shown at V.A.G Transport GmbH and Volkswagen Canada among others.

The portfolio of **Securities** showed a decrease of DM 3,592 million compared with the previous year to DM 347 million, which was particularly due to the increase in cash in banks. Most of the securities were held by Volkswagen AG.

**Miscellaneous Other Current Assets** rose by DM 915 million or 18.6% from the previous year to DM 5,830 million. Most of this item comprised receivables from the financing of purchases (dealer financing), sales (customer financing), tax refunds and interest payments. The increase was mainly due to the rise in receivables deriving from dealer financing.

DM 202 million contained in **Prepaid and Deferred Expenses** involved a loan discount from Volkswagen AG. The other prepaid and deferred expenses consisted of commissions and expenditures of German and foreign financing companies.

**Stockholders' Equity and Liabilities Consolidated Reserves** show the reserve from capital stock surplus, the reserves arising from earnings and the adjustment items arising from initial consolidation.

**Reserve from Capital Stock Surplus** consists of the premium amounts contained in Volkswagen AG's legal reserve and the proceeds for rights deriving from 1986 option bonds of Volkswagen AG. This amount rose by DM 2,020 million compared with the previous year to DM 2,803 million.

**Reserves of the Group Arising from Earnings** show the amounts allocated to the legal reserve and other reserves from the net earnings of Volkswagen AG. The **Other Reserves**, in which we include differences resulting from translation of the foreign financial statements at different exchange rates (historical/balance-sheet date rates) rose by DM 563 million compared with the previous year to DM 5,476 million. This item also consists of the pro rata reserves accrued since becoming a member of the Group, net earnings available for distribution and losses of Group companies, as well as value adjustments made by parent companies for Group companies and eliminated in the course of consolidation.

Other Reserves also includes the amounts to be eliminated in fixed assets and inventories from intra-Group supplies, the discounts on interest-free loans granted by Volkswagen AG to VW-Wohnungsbau Gemeinnützige Gesellschaft mbH and cancelled in the course of consolidation, as well as other cases of elimination arising from consolidation and having an effect on the result.

The **Adjustment Items Arising from Initial Consolidation** constitute the surplus of net assets above acquisition cost at the time of acquisition. This item was chiefly accounted for by the consolidation of Volkswagen of South Africa, Volkswagen do Brasil and Volkswagen Argentina S.A.

**Minority Interest in Consolidated Subsidiaries** in the main related to the SEAT group, Volkswagen do Brasil and AUDI AG.

**Reserves for Special Purposes** were shown by Volkswagen AG, German Group companies, V.A.G France and Volkswagen Bruxelles S.A.

**Allowance for Doubtful Trade Acceptances and Accounts** serves to cover the general credit risk and is made by the German and foreign companies according to uniform principles.

**Total Undetermined Liabilities**, which amounted to DM 14,514 million, were DM 308 million or 2.2% up on the previous year. Of this amount 37.9% may be considered long-term, 27.1% medium-term and 35.0% short-term.

**Undetermined Liabilities** in respect of **Old-age Pensions**, which stem from the financial statements of the West German Group companies, were based on actuarial computation and the going value method. The reserve for special purposes created in 1982 as a result of the change in interest rate from 5.5% to 6% was eliminated pro rata.

**Undetermined Liabilities for Maintenance Not Performed during Current Year** chiefly pertained to Volkswagen AG, AUDI AG and Volkswagen do Brasil.

**Undetermined Liabilities for Warranties without Legal Obligation** came mainly from the financial statements of Volkswagen AG and Volkswagen of South Africa.

**Other Undetermined Liabilities** chiefly consisted of warranty and distribution costs, workforce obligations and taxes.

**Liabilities with an Initial Term of Four Years or Longer** rose by DM 749 million or 40.7% compared with the previous year to DM 2,591 million. Increases were particularly accounted for by Volkswagen International Finance, Volkswagen of America, V.A.G Kredit Bank and inclusion of the SEAT group for the first time. At AUDI AG there were considerable decreases.

Of the **Trade Accounts Payable** 73.5% was accounted for by German companies and 26.5% by foreign companies.

**Liabilities Resulting from the Acceptance of Bills Drawn and the Issuing of Promissory Notes** were primarily shown by Volkswagen do Brasil and the SEAT group. The increase in this item is chiefly due to acceptance liabilities on the part of the SEAT group.

With an increase of DM 315 million the **Liabilities Due to Banks** amounted to DM

5,331 million. The increase on the previous year is particularly due to the inclusion of the SEAT group in the consolidated financial statements for the first time. At Volkswagen of America in particular there were decreases.

**Advance Payments from Customers** showed a 42.3% increase on the previous year. The total of DM 216 million mainly originated from the financial statements of Volkswagen AG and Volkswagen Argentina S.A.

**Miscellaneous Other Liabilities** mainly arose from liabilities to the workforce and from taxes and customs duties.

**Deferred Income** mainly comprised leasing and financing income which has to be booked as pro rata amounts during the term of loan agreements and leases.

In addition to the **Contingent Liabilities** shown on the balance sheet, the following liabilities have to be stated:

Out of the total securities held as current assets, Volkswagen AG has pledged securities at a nominal value of DM 2 million to safeguard routine handling of imports. It is also liable in the amount of DM 2,251,600 in respect of returned contributions to limited partnerships (Kommanditgesellschaften). There were contribution liabilities of DM 3,124,600 towards 2 private limited companies (GmbH). Liabilities to a cooperative and a private limited company (liability to contribute in accordance with the Articles of Association) totalled DM 138,600. For loans received the Spanish financing companies FISEAT and LISEAT have pledged bills to the lending banks for a loan amount totalling DM 328,795,000.

## Statement of Earnings

The figures given in the 1986 statement of earnings have been affected by the substantial changes in the exchange rates so it is difficult to make a fair comparison with the previous year's figures.

**Sales** of the Volkswagen Group, which amounted to DM 52,794 million, were only

slightly above the previous year's figure, whilst for unit sales there was an increase of 15.0%. Apart from the increase in proceeds from the sale of Volkswagen models the sales of SEAT vehicles, which were included in the figures for the Volkswagen Group for the first time, had a major influence on the rates of increase. The departure of the companies in the Triumph-Adler group from the Volkswagen Group caused the non-automotive sales figures to be reduced overall. The percentage accounted for by foreign sales fell from 69.2% the previous year to 64.3% in 1986, mainly as a result of changes in exchange rates, whilst the proportion of unit sales abroad remained virtually unchanged at 69.6% (69.9% the previous year).

**Expenditures on Raw Materials, Supplies and Other Materials** rose by 7.6% to DM 28,656 million. The rise was particularly due to production increases.

**Income from Investments in Subsidiaries and Affiliates** stemmed almost entirely from the financial statements of Volkswagen AG and mainly related to the Company's shares in the profits of German sales centers.

**Income from Other Financial Investments** chiefly originated at V.A.G France, Volkswagen AG, Volkswagen of America and Volkswagen do Brasil.

**Other Interest and Similar Income** derived mainly from the financial statements of Volkswagen AG, the SEAT companies, V.A.G Kredit Bank GmbH, Volkswagen do Brasil and Volkswagen of America.

**Gains from Disposal of Fixed Assets and Investments** came largely from the financial statements of Volkswagen of America.

**Gains from Disposal of Leasing and Rental Assets** derived chiefly from the sale of used vehicles owned by the leasing and rental companies.

**Income from Elimination of Reserves for Undetermined Liabilities no Longer Required** was chiefly accounted for by

Volkswagen AG, Volkswagen of America and AUDI AG.

**Income from Elimination of Reserves for Special Purposes no Longer Required** derived mainly from Volkswagen AG eliminating the item created in accordance with § 52 subsection 5 of EStG (Income Tax Act), and from the elimination of items created in accordance with § 1 of the Developing Countries Tax Act.

**Other Income** comprised in particular adjustment items for the utilisation of provisions at Volkswagen AG, foreign exchange gains, the rebilling of advertising material and sales promotion expenses, the adjustment item for the loss of SEAT which was included in initial consolidation, income from renting and leasing and from the sale of catering goods.

**Labour Cost** rose by DM 834 million or 6.0% to DM 14,747 million. The rise was connected with the increase in workforce and pay increases.

The item **Write-down of Financial Investments** comprised mainly value adjustments for long-term lendings and other financial investments.

**Losses on Disposal of Fixed Assets and Investments** derived mainly from Volkswagen of America and AUDI AG.

**Losses on Disposal of Leasing and Rental Assets** chiefly stemmed from the sale of vehicles used in leasing and rental business.

The item **Interest and Similar Charges** was still affected to a great extent by the high financing costs in the Latin American countries, due to inflation, and by the financing costs at the SEAT companies.

**Taxes on Income, Earnings and Property** derived in the main from the financial statements of Volkswagen AG.

**Additions to Reserves for Special Purposes** chiefly occurred in the statements of Volkswagen Bruxelles S.A., V.A.G France and Volkswagen AG.

Most of the **Other Expenses** consisted of expenditure on servicing and maintenance, advertising and sales promotion costs, currency losses and expenses for shipment of finished products.

The Volkswagen Group closed the fiscal year 1986 with **Net Earnings** amounting to DM 580 million (DM 596 million the previous year). It was especially the results for Volkswagen AG and Volkswagen of America which contributed to the favourable earnings situation. The earnings position of Volkswagen do Brasil was still unsatisfactory. The SEAT group showed a loss for the year, in which it was included in the Volkswagen Group for the first time.

# Notes on the Financial Statements of Volkswagen AG

## Balance Sheet

### Assets

Investments in **Property, Plant and Equipment** amounted to DM 2,282 (1,366) million and thus attained the largest volume of investment in fixed assets which VWAG has ever achieved. The investments served to further develop and improve our range of products and to extend and modernise production facilities.

Additions to finished buildings and plant, including transfers of buildings and plant under construction and advance payments on fixed assets, came to DM 1,739 (1,055) million. Out of this total, DM 745 (458) million was expended on machinery and fixtures, DM 690 (461) million on plant and office equipment and DM 304 (136) million on real estate and buildings.

By the end of 1986 the total cost of acquisition and manufacture for property, plant and equipment had reached DM 18,546 (17,029) million. After deduction of the value adjustments on this sum in the amount of DM 15,072 (14,228) million the net book value of property, plant and equipment came to DM 3,474 (2,801) million.

As previously, property, plant and equipment have been valued at acquisition or manufacturing cost, less depreciation. Manufacturing cost and advance payments on fixed assets were based on the principles explained in the 1985 Annual Report, as was regular depreciation. Increased tax deductions, or extraordinary depreciation, were charged on a regular basis in accordance with § 3 of the Border Area Promotion Act, § 6b of the Income Tax Act, § 7d of the Income Tax Act, Section 35 of the Income Tax Guidelines and § 82d of the Income Tax Directive. These measures totalled DM 636 (635) million.

Investment subsidies have been deducted from acquisition or manufacturing cost. As they were made available for the previous year's additions they were shown as disposals.

The following list shows a breakdown of investments by the various plants (in DM million):

Plant		Incl. movable assets
Kassel	768	672
Wolfsburg	677	604
Emden	388	273
Brunswick	204	129
Salzgitter	149	143
Hanover	96	67
	<u>2,282</u>	<u>1,888</u>

We have not shown an assets item for **intangible assets**.

Additions to **Investments in Subsidiaries and Affiliates** shown under **Investments** chiefly involved the acquisition of a majority holding in SEAT S.A. and the share obtained in Ing. C. Olivetti & C., S.p.A. There were increases in capital stock at V.A.G Leasing GmbH, VW KRAFTWERK GmbH, AUTOMERMA S.p.A., Volkswagen de Mexico, S.A. de C.V. and Shanghai-Volkswagen Automotive Company, Ltd.

Trade investments have been valued at acquisition cost, less any value adjustments necessary. In 1986 write-downs were charged on four foreign companies. Out of the total amount for write-downs DM 0.9 million was accounted for by additions throughout the fiscal year.

**Loans Receivable with an Initial Term of Four Years or Longer** rose particularly because of a loan granted to Volkswagen of America, Inc. during the fiscal year; a liability is shown for the same amount and for the same term due to the US \$ 150 million option bond taken over as a loan from Volkswagen International Finance N.V., Amsterdam, so acquisition cost was retained. The item also included funds which were made available to housing associations and Company employees. 7% discount has been applied to loans granted since 1955. Loans granted up to December 31, 1954, under § 7c of the Income Tax Act, have been fully written down. The figures shown for loans have been retained until redemption. Write-downs amounting to DM 7.8 million pertained to additions during the fiscal year.

**Inventories** rose by DM 178 million to a total of DM 2,525 million. These assets were again valued according to the principles set out in the 1985 Annual Report.

Depreciation on additions for 1986 was distributed as follows:

DM thousand	Real estate and land rights		Buildings on leased real estate	Machinery and fixtures	Plant and office equipment	Construction in progress	Advance payments on fixed assets
	with office, factory and other buildings	without buildings					
1986 additions*)	301,556	837	508	744,495	464,876	201,946	214,400
Depreciation on 1986 additions	91,591	498	242	387,645	237,775	100,029	107,200

\*) Additions inclusive of transfers from construction in progress and advance payments on fixed assets (not including special tools not yet in operational use and on which depreciation has not yet

been applied, but including additions to land and buildings eligible for depreciation as provided for under § 6b EStG (Income Tax Act))

Of the **Trade Accounts Receivable** totaling DM 504 million, DM 392 million was accounted for by foreign business and DM 112 million by domestic business. Apart from minor exceptions, accounts due for payment have been settled in the meantime. Value adjustments were made with respect to non-payment risks.

**Cash in Banks** amounted to DM 6,571 million and chiefly comprised short-term time deposits owing to the reinvestment of proceeds from the sale of securities.

The value of **Securities** fell by DM 3,212 million as a result of the sale of bonds. The securities were assessed at acquisition cost or at the value on the balance-sheet date where lower. Securities with a nominal value of DM 2 million were pledged as security in favour of the customs authorities in Hanover to ensure routine import clearance.

**Treasury Stock** was acquired in 1971 in connection with a conversion offer to Audi stockholders on the occasion of a capital increase. A total of 301,206 shares were acquired at a nominal value of DM 15,060,300, the average price being DM 190.04 per share.

The figure fell throughout the fiscal year by 63,901 shares at a nominal value of DM 3,195,050, for which the Company received DM 30 million. The proceeds of the sale were used to acquire further shares in Volkswagen do Brasil S.A. The nominal value of the treasury stock is now equal to 0.8% of capital stock.

The reserve required by law has been adjusted in the amount of the change in balance-sheet value of the treasury stock.

**Receivables from Subsidiaries and Affiliates** rose by DM 63 million to DM 4,028 million during the year under report. They chiefly concerned V.A.G Leasing GmbH, V.A.G France S.A., Volkswagen of America, Inc., Volkswagen do Brasil S.A., interRent GmbH and Volkswagen de Mexico, S.A. de C.V. There were increases mainly at Volkswagen do Brasil S.A., V.A.G France S.A. and V.A.G Leasing GmbH. Downward movements resulted particularly from AUDI AG and the departure of TA TRIUMPH-ADLER AG as an affiliated company. Receivables from West German companies totalled DM 2,175 million and receivables from foreign companies DM 1,853 million. They were mainly short-term loans given and trade accounts receivable. Value adjustments have been made for non-payment and foreign exchange risks.

**Miscellaneous Other Current Assets** chiefly comprised a short-term loan to a West German subsidiary, entitlements to compensation from AUDI AG, the loan given to TA TRIUMPH-ADLER AG and transferred from the receivables from subsidiaries and affiliates, amounts receivable from the tax office in respect of input tax as well as interest receivable on cash in banks. Value adjustments were made for high-risk amounts receivable.

In the **Prepaid and Deferred Expenses** we are showing a bond discount of DM 202 million. This results from the proceeds for subscription rights in respect of Volkswagen AG shares inherent in the option bonds issued by Volkswagen International Finance N.V., Amsterdam, less regular depreciation for 1986.

**Stockholders' Equity and Liabilities**  
**Capital Stock** now amounts to DM 1,500 million after the capital increase effected during the fiscal year according to a resolution passed by the Annual Meeting of Stockholders on July 4, 1986 by which non-voting preference shares were issued for DM 300 million. There also continues to be authorised capital stock in the amount of DM 300 million and **Potential Capital Stock** in the amount of DM 200 million (valid until June 30, 1989), which can be converted to Capital Stock up to the

amount of DM 97.5 million if bearers of warrants from the option bonds issued in 1986 exercise their subscription right.

**Legal Reserve** rose by DM 2,020 million owing to the premium on the capital increase and the proceeds received for the subscription rights on VW AG shares inherent in the two option bonds issued by Volkswagen International Finance N.V., Amsterdam, in 1986.

The **Reserve for Treasury Stock** fell by DM 4.5 million owing to the disposal of treasury stock.

An amount of DM 190 million was transferred from net earnings to **Other Reserves**.

**Reserves for Special Purposes** were DM 20 million down on the previous year. Eliminations were performed in accordance with the legal regulations and a reserve was created to take account of inflation in accordance with § 74 of the Income Tax Directive.

As in the previous years the **Allowance for Doubtful Trade Acceptances and Accounts** was again made to cover the general credit risk in respect of trade accounts receivable and advance payments to suppliers.

**Undetermined Liabilities** in respect of **Old-age Pensions** were assessed at the going value of liabilities in accordance with § 6a of the Income Tax Act on the basis of actuarial methods.

The main items of **Other Undetermined Liabilities** consisted of provisions for warranty and marketing expenses and for labour costs, especially for early retirement schemes and long-service anniversaries, as well as provisions for tax and risks involved in foreign exchange business (cf. page 21).

In the **Liabilities with an Initial Term of Four Years or Longer** the loans decreased by DM 30 million owing to the annual redemption instalment due on the DM 300 million loan issued in 1972. The other liabilities showed an increase of DM 563

million as a result of amounts taken over from the above mentioned option bonds.

Most of the **Trade Accounts Payable** involved domestic suppliers.

**Due to Banks** was almost solely accounted for by current business.

**Accounts Payable to Subsidiaries and Affiliates** were chiefly in respect of Volkswagen of America, Inc., Volkswagen Bruxelles S.A. and Volkswagen International Finance N.V., Amsterdam.

**Miscellaneous Other Liabilities** mainly consisted of regular payroll liabilities, other staff payments and tax liabilities.

### Statement of Earnings

**Sales** were DM 2,213 million (5.7%) up on 1985 at DM 41,134 million. The rise chiefly resulted from the increase in vehicle sales in West Germany. More upmarket vehicle features also had a positive effect. Domestic business showed a 15.9% increase in sales. Export sales declined by 1.2% as a result of the trend in the exchange rate for the US dollar. Vehicle business accounted for 76.5% of total sales whilst other miscellaneous sales accounted for 16.3% and spare part sales 7.2%.

**Expenditures on Raw Materials, Supplies and Other Materials** rose by DM 2,332 million or 9.1% compared with the previous year. The main reasons were the expansion of production, the rise in the share accounted for by upmarket vehicle features and higher prices for the vehicles purchased from our subsidiaries.

**Income from Profit and Loss Assumption Agreements** derived from our domestic subsidiaries AUDI AG, V.A.G Transport GmbH, V.A.G Kredit Bank GmbH, VW KRAFTWERK GmbH, WESER-EMS Vertriebsgesellschaft mbH, V.A.G Marketing Management Institut GmbH and VW-Siedlungsgesellschaft mbH.

**Income from Investments in Subsidiaries and Affiliates** comprised mainly Volkswagen AG's proportionate share in the profits of the domestic sales centers for 1986, as well as income from V.A.G France S.A., interRent Autovermietung GmbH, Volkswagen Canada Ltd. and Volkswagen Bruxelles S.A.

**Income from Other Financial Investments** involved interest on loans granted.

**Other Interest and Similar Income** stemmed mainly from time deposits, loans granted to subsidiaries and affiliates and from securities in the current assets.

**Gains from Disposal of Fixed Assets and Investments** arose from the sale of fixed assets and from the repayment of housing loans.

**Income from Elimination of Reserves for Undetermined Liabilities** particularly consisted of provisions no longer required for tax risks, risks involved in subsidiaries and affiliates, and for staff and marketing expenses.

**Other Income** chiefly comprised adjustment items for utilising provisions, the rebilling of marketing expenses and tax to subsidiaries and affiliates, income from rebilled services and income from catering sales.

**Labour Cost** rose by DM 835 million or 10.6% to DM 8,736 million during the fiscal year 1986 (cf. also "Report on Social Matters at Volkswagen AG" on pages 36 ff.). The main reason for this rise was the increase in the number of staff at Volkswagen AG and the pay increase which took effect from November 1986.

**Interest and Similar Charges** were for the most part accounted for by liabilities to subsidiaries and affiliates, as well as loans.

The reduction in **Taxes on Income, Earnings and Property** was predominantly due to tax on earnings for the current year. This item also includes amounts pertaining to the previous year.

**Expenses under Profit and Loss Assumption Agreements** resulted mainly from TA TRIUMPH-ADLER AG.

**Other Expenses** chiefly showed freight, advertising and sales promotion costs for the distribution of our products, costs connected with the servicing and maintenance of plant, expenditure on subsidiaries and affiliates, as well as risks involved in foreign exchange business and currency losses.

### Additional Details

In addition to the **Contingent Liabilities** shown on the balance sheet, we were liable in the amount of DM 64,500,000 in the form of subscription obligations concerning private limited liability companies and had a contingent obligation towards a German company to pay a further contribution of DM 124,600. In addition we had liabilities in the amount of DM 2,251,600 for returned capital contributions from limited partnerships. We have unlimited liability in respect of our holding in Volkswagen AG PreussenElektra AG OHG. Of the real estate, about 63 hectares (balance-sheet value DM 2,523,006.72) is encumbered with building leases.

For the loans granted to us by Volkswagen International Finance N.V. and stemming from bond issues by this company, we gave guarantees to all the bondholders in the same amount. The guarantees for two DM bonds are for DM 450 million together and for US \$ 150 million in the case of a US dollar bond, the total figure amounting to DM 763 million.

The **Remunerations of the Members of the Board of Management** totalled DM 11,518,043 in 1986. Retired members of the Board of Management or their surviving dependants received DM 4,818,570.

The **Remunerations of the Supervisory Board** amounted to DM 303,800.

# Explanations of Certain Financial Terms

Since our Annual Report is intended to be read by as wide a circle as possible, and some of the technical terms used in it are subject to varying definitions, we should like to explain them. We make no attempt to be comprehensive, nor do we claim scientific exactitude. Rather we wish to indicate the interpretations current within the Company.

**Added value:** The increase in value achieved by a company in a period (added value) is calculated at Volkswagen AG as follows: Gross performance as shown in the statement of earnings + other income – expenditures (predominantly material costs) – depreciation and losses from disposals. The calculation of the added value also shows, to what extent the employees, the creditors, the State, and the stockholders participate in the total performance of the Company.

**Additions:** Every actual quantitative addition of items in the fixed assets and investments (physical alteration of the fixed assets and investments) is designated as an addition. Additions can only be shown as such in the accounting period in which the quantitative addition in the fixed assets and investments actually occurred.

**Adjustment items arising from initial consolidation:** The difference resulting when the acquisition costs of a holding in a group company do not correspond to the capital to be consolidated available at the time of acquisition (capital stock, reserves, profit or loss). The resulting sum is shown in the balance sheet under "Adjustment items arising from initial consolidation". Thus for example an adjustment item on the assets side can contain valuation reserves in acquired group companies or future profits already contained in the acquisition price.

**Advance payments:** These are prepayments on agreed supply and service contracts in connection with which a delivery or service has not yet been completed.

**Allowance for doubtful trade acceptances and accounts:** In order to cover the general credit risk attaching to the receivables, a flat value adjustment can for reasons of business circumspection be made. Account must on the other hand be taken of individual bad debts through value adjustments made on the assets side in the case of the receivables concerned.

**Authorised capital:** Authorised capital is one of the four forms of capital increase provided for in the Corporation Law and comprises the authorisation of the Board of Management by the Annual Meeting of Stockholders to increase the capital stock of the company within a maximum of five years by up to an agreed nominal value through the issue of new shares.

The conditions and the exact date of the share issue are decided by the Board of Management after approval by the Supervisory Board. Since a further resolution of the Annual Meeting of Stockholders directly prior to the increase of capital stock is not necessary, the authorised capital represents a flexible instrument for capital raising as far as the time of the increase is concerned which makes it possible to adapt the time and conditions swiftly to the situation on the capital market at any given point. At the Annual Meeting of Stockholders of 1984 the Board of Management was authorised to increase the capital stock of Volkswagen AG by up to DM 300 million through the issue of new ordinary bearer shares up to June 30, 1989. The stockholders are to have subscription rights.

**Capital investments:** These are additions of property, plant and equipment for long-term use – e. g. real estate, machines and plant and office equipment. They also include additions of intangible fixed assets and also financial investments such as the acquisition of shares, limited liability company holdings and bonds. The consolidated financial statements also include under additions for example the fixed assets and investments of companies included in the consolidation scope for the first time and an increase of the adjustment items arising from initial consolidation. As of the fiscal year 1985 the capital investments no longer include the additions in leasing and rental assets.

**Cash flow:** This is the sum of money available to a company for financing purposes in any fiscal year from the sales proceeds after deduction of expenses

such as material, labour and other costs. In practice it is ascertained in different ways. We ascertain cash flow for the Volkswagen Group as follows: Result + provision for depreciation of fixed assets and write-down of investments + disposals of property, plant, equipment and investments (not including depreciation and disposals of leasing and rental assets) +/- increase/decrease in provision for old-age pensions +/- increase/decrease of stockholders' equity in reserves for special purposes.

The cash flow is a figure for the rating of the internal financing capacity of a company.

**Consolidation:** This is the integration of the individual financial statements (balance sheets and profit and loss accounts) of the legally independent group companies being consolidated into group financial statements, setting off intra-group transactions to avoid double counts. The following items have to be set off: equity capital of the subsidiary against the corresponding item "Investments in subsidiaries and affiliates" of the parent company (capital consolidation), receivables against liabilities (debt consolidation) and expenses of the one company against the corresponding income of the other group company, where necessary eliminating inter-company profits (expenses and income consolidation).

**Contingent liabilities:** These are liabilities whose reason and extent are known but where it is uncertain whether the company will have to meet them. For example guarantees are shown in these sums. Because this kind of liability has as yet no fixed character, it is shown outside the actual balance sheet structure.

**Current assets:** All assets which do not serve the longer-term business operation and are not advance payments for expenses of the following year (item "Prepaid and deferred expenses") are referred to as current assets. In principle these include all objects which are to be used up, processed or disposed of. Cur-

rent assets are subdivided into the groups "Inventories" and "Other current assets". The assets under these headings are characterised by the fact that they have a relatively fast turnover.

**Deferred income/Prepaid and deferred expenses:** Revenues or expenditures of the company which do not result in income or expenses until after the balance sheet date (e. g. rent paid in advance).

**Depreciation:** By means of depreciation the acquisition or manufacturing costs of items making up the fixed assets are distributed over the accounting periods (fiscal years) in accordance with their planned useful life. In addition to this regular depreciation there is extraordinary depreciation for covering unforeseen value reducing factors and for tax purposes. Such depreciation can for example take account of the obsolescence of machinery as a result of technical progress.

**Disposals:** The statement of reductions in fixed assets and investments presupposes the (physical) disposal of assets in particular through sale, demolition or scrapping. Higher or lower proceeds compared with the book values can thus be achieved; the difference between proceeds and book value is shown in the statement of earnings under gains or losses on disposal of fixed assets and investments.

At Volkswagen AG the investment allowances granted from government funds on the previous year's capital investments, whereby the acquisition or manufacturing costs are reduced, are also shown as disposals.

**Fixed assets and investments:** These include all items which on the balance sheet date are intended to serve the operation of the company over the longer term. Fixed assets and investments are subdivided into tangible and intangible assets (e. g. licences, patents, rights) and financial investments.

**Gross performance:** This is the performance which has been achieved by a company during a given period and consists mainly of the sales proceeds. Along with this the gross performance includes changes of inventories of the products and the other self-produced assets.

**Intangible fixed assets:** Rights acquired against payment, e. g. concessions, licences and patents.

**Inventories:** These comprise raw materials and supplies, work in progress, finished products and goods. Raw materials are all materials which go direct into the product as essential components; auxiliary materials are only minor components of the product; supplies (e. g. lubricants) are not a part of a product but are necessary for its manufacture. "Goods" are all objects which have been purchased from outside and disposed of without processing or reworking. At Volkswagen AG for example these include the vehicles assembled by Volkswagen Bruxelles.

**Investments in subsidiaries and affiliates:** These are holdings in other companies (stock companies or unincorporated companies) which were acquired with the intention of a longer-term participation.

**Liquid funds:** These are the financial assets of a company which are available at all times. They include cheques, cash on hand, deposits in postal checking accounts, and cash in banks.

**Liquidity:** The company's ability to meet its financial obligations whenever they are due. In order to secure constant ability to pay it is necessary to match incoming payments and obligations to pay in such a way that the inflow and outflow balance as far as possible. Since in practice this target can only be approached, every company is forced for reasons of security to hold a liquidity reserve.

**Loans receivable in accordance with §§ 89 and 115 of AktG (Corporation Law):**

This includes loans to members of the Board of Management, senior executives and persons on a level with this group, and loans and advances to members of the Supervisory Board. This obligatory statement also includes loans to companies in whose statutory bodies a member of the Board of Management or Supervisory Board of the loan-providing company is represented.

**Loss:** See "Net earnings/Loss".

**Loss as shown in the balance sheet:**

This is the loss after net earnings (loss) brought forward and change in reserves.

**Material, wages and overhead capitalised as additions to plant and equipment:**

These are for example self-produced plant and tools. They are shown in the statement of earnings under the income item "Material, wages and overhead capitalised as additions to plant and equipment" since the expenses arising from the production of the company-constructed assets (wages, materials etc.) are contained in the corresponding items in the statement of earnings.

**Minority interest in consolidated subsidiaries:**

If outside (non-group) parties have an interest in the companies included in the consolidated financial statements, then a "Minority interest in consolidated subsidiaries" has to be shown separately in the consolidated balance sheet for their share in the capital, reserves and profit/loss. This adjustment item is necessary, since all assets and liabilities of the group companies are included in the balance sheet in full although they only belong partially to the group companies. For example under this item the Volkswagen Group balance sheet has to show the minority interests that exist in Volkswagen do Brasil and VW-VersicherungsvermittlungsgmbH.

**Net earnings/Loss:** The sum is arrived at mathematically from the difference

between all income and expenses and represents the result of the year under review before transfers to or from reserves.

**Net earnings available for distribution:**

This is the profit of a company after transfers to or from reserves and taking account of net earnings (loss) brought forward. It forms the basis for the Annual Meeting of Stockholders' resolution as to a dividend distribution.

**Net earnings brought forward:**

This is what remains of the net earnings available for distribution in accordance with the resolution of the Annual Meeting of Stockholders and is carried forward to the new year.

**Option bond:** This is a security yielding a fixed rate of interest. It certifies that the holder is not only entitled to fixed interest but also has a separately negotiable right to purchase shares in the issuing company during a certain period, with a specified ratio of shares to bonds and at a fixed price. As far as the option bond issued by Volkswagen International Finance N.V., Amsterdam, is concerned the option relates to shares in Volkswagen Aktiengesellschaft.

**Potential capital:** The main feature of a potential capital increase is that an increase in the capital stock is adopted by the Annual Meeting of Stockholders, but the amount as well as the date remain undetermined in contrast to an ordinary capital increase. Primarily the potential capital serves to enable the management to issue convertible or option bonds.

**Preference shares:** Preference shares are shares which differ from ordinary shares in the rights they incorporate. There are numerous possibilities in this respect. In the case of the non-voting preference bearer shares issued by Volkswagen AG the right of voting is excluded. They incorporate a preference with regard to the distribution of profits.

At Volkswagen this is defined as follows: Firstly, from the net earnings available for distribution a preference dividend of 4% of the par value of the preference shares is paid to the holders of preference shares. If the net earnings available for distribution are insufficient to permit this, the arrears must be paid in the succeeding years before distribution of a dividend to holders of ordinary shares. Only then is a dividend of up to 4% paid to the holders of ordinary shares. Should further net earnings be available for distribution they are distributed in such a way that a dividend is paid on preference shares which is 2% of the par value higher than for the ordinary shares.

In accordance with Corporation Law, voting rights for preference shares are revived if no preference dividend has been paid for two years – until such time as all arrears have been paid.

**Provision for old-age pensions:**

These are set up on the basis of actuarial computations. Precondition for the setting up of a provision for pensions is a promise of pension on the basis of which the company employees have a legal claim to continued or once-only pension payments when they retire from work.

**Receivables from subsidiaries and affiliates:**

These companies are legally independent companies which are defined in detail in the Corporation Law. All receivables from subsidiaries and affiliates have to be shown separately in the balance sheet. One example of this in Volkswagen AG's financial statements are the receivables from AUDI AG.

**Reserves:** These are a part of the stockholders' equity shown on the liabilities side of the balance sheet and are subdivided into legal and other reserves. Transfers to reserves are made either by payments by stockholders (e. g. the premium payable on the issue of new shares for the capital increase of Volkswagen AG) or by transfers from the net earnings. Whilst allocations to the legal reserve are regulated by the Corporation

Law, the company managing bodies or the stockholders decide on the formation of other reserves. Allocations to reserves from net earnings permit whole or partial maintenance of self-financed assets (maintenance of capital) and thus in the long term lead to a higher intrinsic value of the company.

**Reserves for special purposes:** In certain circumstances tax law provides the possibility of setting up a tax-free reserve which in later years has to be liquidated in such a way as to affect results and increase earnings. When such reserves are adopted in the financial statements then they must be shown separately after the free reserves in the "Reserves for special purposes". It must be indicated under which statutory provisions these reserves were set up (e. g. reserve for investments in developing countries in accordance with § 1 of the Developing Countries Tax Act).

**Reserve for treasury stock:** In accordance with § 150a of the Corporation Law Volkswagen AG set up in 1979 a reserve for treasury stock. This reserve, which had to be set up in the amount of the book value shown on the assets side of the balance sheet for treasury stock in accordance with § 155 AktG serves in the sense of protection of creditors the safeguarding of stockholders' equity.

This is achieved by the withholding from possible distribution of profit a sum corresponding to the value of treasury stock by showing it as a legal reserve with the concomitant statutory restriction of disposal. This prevents the assets of the company being reduced by the sum of these shares and thus an indirect repayment of liable equity capital to the stockholders.

**Sales:** In the case of a group this refers to the sales proceeds adjusted for internal transactions – i. e. transactions between the individual consolidated group companies. Transactions conducted for example between Volkswagen AG and AUDI AG have within the Group the

character of supplies between legally dependent plants.

**Sales to the dealer organisation; deliveries of vehicles to customers:** In the Annual Report of Volkswagen AG figures are given both for deliveries of cars to customers and for sales to the dealer organisation. Sales to the dealer organisation means Volkswagen Group vehicles sold to the Volkswagen and Audi outlets not belonging to the Group. Deliveries to customers means vehicles sold by the dealerships to final consumers.

**Subsidiaries and affiliates:** See "Receivables from subsidiaries and affiliates".

**Transfers:** As a rule these are transfers from one item within the fixed assets and investments to another. They do not represent any alteration in value or quantity, but are alterations of statement with purely formal significance.

**Treasury stock:** This represents that part of the capital stock of a company which the company has acquired itself and is shown in the current assets with the acquisition costs or the possibly lower stock exchange value. The Corporation Law makes the acquisition of treasury stock dependent on the existence of certain preconditions and limits it to 10% of the capital stock. Thus the treasury stock of Volkswagen AG for example was acquired in 1971 in conjunction with the conversion offer to the stockholders of the AUDI AG.

**Undetermined liabilities:** These are a part of outside capital and are formed for obligations whose nature is known but whose amount and due date are unknown. Undetermined liabilities are not reserves and are thus not profits withheld. They are set up for example to cover concrete litigation risks which can lead to a subsequent claim being made on the company.

# Consolidated Balance Sheet of the Volkswagen Group

## December 31, 1986

## Assets

DM thousand

	Jan. 1, 1986	Amounts brought forward <sup>1)</sup>	Additions	Disposals	Transfers	Depreciation	Dec. 31, 1986	Dec. 31, 1985
<b>Fixed Assets and Investments</b>								
<b>A. Property, Plant, Equipment and Intangible Assets</b>								
Real estate and land rights								
with office, factory and other buildings	3,841,978	354,859	412,501	76,392	129,197	379,150	4,282,993	3,841,978
with residential buildings	381,753	432	7,106	7,898	14	15,159	366,248	381,753
without buildings	146,317	57,058	12,363	8,819	4,455	716	210,658	146,317
Buildings on leased real estate	59,421	140,551	7,226	10,320	1,944	21,203	177,619	59,421
Machinery and fixtures	1,705,258	286,900	1,037,340	55,967	258,493	1,179,862	2,052,162	1,705,258
Plant and office equipment	1,438,480	203,909	1,214,303	120,716	439,001	1,137,254	2,037,723	1,438,480
Construction in progress and advance payments on fixed assets	1,161,012	86,553	1,204,428	71,114	- 835,440	216,383	1,329,056	1,161,012
Trademarks and the like	5,770	812	278	5,692	862	285	1,745	5,770
	8,739,989	1,131,074	3,895,545	356,918	- 1,474	2,950,012	10,458,204	8,739,989
<b>B. Investments</b>								
Investments in subsidiaries and affiliates	130,917	8,024	631,602	16,938	-	11,908	741,697	130,917
Other investment securities	3,757	229	79	225	1	-	3,841	3,757
Loans receivable with an initial term of four years or longer	300,269	1,666	154,910	94,726 <sup>2)</sup>	-	15,042	347,077	300,269
Par value on Dec. 31, 1986		437,213						
of which secured								
by mortgages		63,561						
loans in accordance with § 89 AktG		2,725						
loans in accordance with § 115 AktG		187						
of which from subsidiaries and affiliates		5,288						
Other investments	7,917	-	10,012	-	1	12,409	5,519	7,917
	442,860	9,919	796,603	111,889	-	39,359	1,098,134	442,860
	9,182,849	1,140,993	4,692,148	468,807	- 1,474	2,989,371	11,556,338	9,182,849
							<b>4,106,381</b>	<b>3,716,769</b>
							<b>652,170</b>	<b>131,303</b>
							<b>16,314,889</b>	<b>13,030,921</b>
<b>C. Leasing and Rental Assets<sup>3)</sup></b>								
							<b>4,106,381</b>	<b>3,716,769</b>
<b>D. Adjustment Items Arising from Initial Consolidation</b>								
							<b>652,170</b>	<b>131,303</b>
							<b>16,314,889</b>	<b>13,030,921</b>
<b>Current Assets</b>								
<b>A. Inventories</b>								
<b>B. Other Current Assets</b>								
Advance payments to suppliers							63,509	65,752
Trade accounts receivable							1,885,123	2,114,115
of which amounts due in more than one year	9,736						657,175	40,136
Trade acceptances							30,791	27,801
of which acceptances discountable at German Federal Bank	6,877						18,709	9,261
Cheques on hand							8,503,295	4,249,363
Cash on hand and deposits in postal checking accounts							347,480	3,939,342
Cash in banks							16,730	21,235
Securities								
Treasury stock								
Par value on Dec. 31, 1986	11,865						6,599	12,066
Receivables from subsidiaries and affiliates								
of which amounts for goods and services rendered	71						5,830,006	4,915,244
Miscellaneous other current assets								
of which receivables in accordance with § 89 AktG	191,130							
receivables in accordance with § 115 AktG	22							
							17,359,417	15,394,315
							24,142,780	21,678,484
<b>Prepaid and Deferred Expenses</b>								
Discount on loans							202,013	-
Other items							105,111	165,152
							307,124	165,152
							40,764,793	34,874,557

## Stockholders' Equity and Liabilities

	Dec. 31, 1986	Dec. 31, 1985
<b>Capital Stock of Volkswagen AG</b>		
Potential capital	200,000	
	<b>1,500,000</b>	<b>1,200,000</b>
<b>Consolidated Reserves</b>		
Reserve from capital stock surplus <sup>4)</sup>	2,803,224	783,387
Reserves of the Group arising from earnings		
Legal reserve of Volkswagen AG	60,000	60,000
Other reserves <sup>5)</sup>	5,475,909	4,913,020
Adjustment items arising from initial consolidation	93,133	34,761
	<b>8,432,266</b>	<b>5,791,168</b>
<b>Minority Interest in Consolidated Subsidiaries</b>		
in net earnings	2,568	
in loss	43,626	
	<b>411,101</b>	<b>269,413</b>
<b>Reserves for Special Purposes</b>		
Reserve in accordance with § 52 subs. 5 of the Income Tax Act	126,879	145,086
Reserve for investment in developing countries in accordance with § 1 of the Developing Countries Tax Act	95,711	101,931
Reserves in accordance with French and Belgian legislation	59,763	49,015
Reserve for price increases in accordance with § 74 of the Income Tax Directive	8,687	4,837
Reserve in accordance with § 1 of the Foreign Investment Act	1,447	2,894
Reserve in accordance with § 6 b of the Income Tax Act	674	188
	<b>293,161</b>	<b>303,951</b>
<b>Allowance for Doubtful Trade Acceptances and Accounts</b>		
	<b>55,648</b>	<b>52,884</b>
<b>Undetermined Liabilities</b>		
Old-age pensions	5,279,364	5,028,789
Other undetermined liabilities		
Maintenance not performed during current year	23,833	34,941
Warranties without legal obligation	15,302	13,046
Other	9,195,221	9,128,761
	<b>14,513,720</b>	<b>14,205,537</b>
<b>Liabilities with an Initial Term of Four Years or Longer</b>		
Loans	1,287,057	828,072
of which secured by mortgages	30,000	
Due to banks	711,756	714,416
of which secured by mortgages	187,360	
Other liabilities	592,647	299,532
of which secured by mortgages	153,679	
	<b>2,591,460</b>	<b>1,842,020</b>
Of which amounts due within four years	1,081,599	
<b>Other Liabilities</b>		
Trade accounts payable	3,243,267	3,201,757
Liabilities resulting from the acceptance of bills drawn and the issuing of promissory notes	1,050,785	301,596
Due to banks	5,331,070	5,015,685
Advance payments from customers	215,784	151,655
Accounts payable to subsidiaries and affiliates	36,582	3,451
of which trade accounts payable	321	
Miscellaneous other liabilities	2,467,962	2,067,111
	<b>12,345,450</b>	<b>10,741,255</b>
<b>Deferred Income</b>		
	<b>314,881</b>	<b>223,956</b>
<b>Net Earnings Available for Distribution</b>		
	<b>307,106</b>	<b>244,373</b>
Contingent liabilities with respect to trade acceptances	297,366	
Contingent liabilities with respect to guaranty obligations	132,744	
Contingent liabilities with respect to warranties	29,996	
Other contingent liabilities	22,704	
	<b>40,764,793</b>	<b>34,874,557</b>

<sup>1)</sup> Amounts brought forward of companies consolidated for the first time

<sup>2)</sup> Including differences in foreign exchange rates in the amount of DM 17,413 thousand

<sup>3)</sup> Development of leasing and rental assets (DM thousand):

Jan. 1, 1986	3,716,769
Additions	2,738,466
Disposals	859,014
Transfers	1,474
Depreciation	1,491,314
Dec. 31, 1986	4,106,381

<sup>4)</sup> This item comprises the share premium included in the legal reserve of Volkswagen AG in the amount of DM 2,863,224 thousand as well as the proceeds for rights inherent in option bonds.

<sup>5)</sup> Offset with differences arising from currency translation and including the reserve for treasury stock of Volkswagen AG in the amount of DM 16,730 thousand



# Consolidated Statement of Earnings of the Volkswagen Group

Year ended December 31, 1986  
DM thousand

	1986	1985
<b>Sales</b>	<b>52,794,365</b>	<b>52,501,844</b>
Increase/Decrease in inventories	670,741	-298,989
	53,465,106	52,202,855
Material, wages and overhead capitalised as additions to plant and equipment	497,185	505,792
<b>Gross Performance</b>	<b>53,962,291</b>	<b>52,708,647</b>
Expenditures on raw materials, supplies and other materials	28,655,570	26,622,833
<b>Excess of Gross Performance over Expenditures for Raw Materials, etc.</b>	<b>25,306,721</b>	<b>26,085,814</b>
Income from profit and loss assumption agreements	-	35
Income from investments in subsidiaries and affiliates	66,958	50,247
Income from other financial investments	51,252	32,528
Other interest and similar income	1,347,582	1,621,282
Gains from disposal of fixed assets and investments	225,058	51,493
Gains from disposal of leasing and rental assets	278,174	206,923
Income from elimination of reserves for undetermined liabilities no longer required	485,583	315,298
Income from elimination of reserves for special purposes no longer required	29,537	28,271
Other income	2,859,465	2,073,622
of which extraordinary income	601,366	
	<b>5,343,609</b>	<b>4,379,699</b>
	<b>30,650,330</b>	<b>30,465,513</b>
Wages and salaries	11,878,350	11,274,823
Social expenditures - compulsory	2,123,456	1,952,425
Pension expenditures and voluntary payments	745,466	685,750
Depreciation of fixed assets and intangibles	2,950,012	3,372,561
Write-down of financial investments	39,359	38,721
Depreciation of leasing and rental assets	1,491,314	1,258,929
Write-down of other current assets and provision for doubtful trade acceptances and accounts	288,285	361,520
Losses on disposal of fixed assets and investments	38,626	17,498
Losses on disposal of leasing and rental assets	113,366	47,540
Interest and similar charges	1,130,740	1,449,067
Taxes		
a) on income, earnings and property	1,353,527	1,992,986
b) other	135,779	131,511
	1,489,306	2,124,497
Expenses under profit and loss assumption agreements	1,077	-
Additions to reserves for special purposes	22,466	6,925
Other expenses	7,758,349	7,279,623
	<b>30,070,172</b>	<b>29,869,879</b>
<b>Net earnings</b>	<b>580,158</b>	<b>595,634</b>
Volkswagen AG's net earnings brought forward	7,385	5,537
	587,543	601,171
Change in consolidated reserves		
Transferred from reserves	46,712	6,401
Transferred to reserves	368,207	432,778
	321,495	426,377
Minority interest in net earnings of consolidated subsidiaries	2,568	5,034
Minority interest in losses of consolidated subsidiaries	43,626	74,613
<b>Net Earnings Available for Distribution</b>	<b>307,106</b>	<b>244,373</b>

Wolfsburg, March 19, 1987

**VOLKSWAGEN AKTIENGESELLSCHAFT**

The Board of Management

According to our legally required audit, the consolidated financial statements and the annual report comply with statutory provisions.

Hanover, March 20, 1987

**TREUARBEIT Aktiengesellschaft**

Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Prof. Dr. Forster  
Wirtschaftsprüfer

(independent auditors)

Siepe  
Wirtschaftsprüfer



# VOLKSWAGEN AG

## Balance Sheet December 31, 1986

## Assets

	Jan. 1, 1986	Additions	Disposals	Transfers	Depreciation	Dec. 31, 1986	Dec. 31, 1985
	DM	DM	DM	DM	DM	DM	Thousand DM
<b>Fixed Assets and Investments</b>							
<b>A. Property, Plant and Equipment</b>							
Real estate and land rights							
with office, factory and other buildings	1,464,432,913	258,208,429	20,622,882	43,358,120	221,469,659	1,523,906,921	1,464,433
with residential buildings	8,757,617	216	4,811	—	645,212	8,107,810	8,758
without buildings	40,695,654	1,754,823	538,256	—	497,794	41,414,427	40,696
Buildings on leased real estate	10,717,135	502,628	2,721,616	5,003	5,072,979	3,430,171	10,717
Machinery and fixtures	401,622,518	680,095,304	10,869,951	61,057,665	600,634,826	531,270,710	401,622
Plant and office equipment	504,894,544	587,533,578	10,209,001	106,241,398	508,040,979	680,419,540	504,894
Construction in progress	172,882,724	455,493,003	19,505,875	— 136,773,973	100,029,000	372,066,879	172,883
Advance payments on fixed assets	196,642,554	298,136,364	458,308	— 73,888,213	107,200,000	313,232,397	196,643
	2,800,645,659	2,281,724,345	64,930,700	—	1,543,590,449	3,473,848,855	2,800,646
<b>B. Investments</b>							
Investments in subsidiaries and affiliates	2,081,294,642	1,848,341,313	1,154	—	7,157,626	3,922,477,175	2,081,295
Loans receivable with							
an initial term of four years or longer	137,862,438	338,834,407	26,737,629	—	7,774,431	442,184,785	137,862
Par value on Dec. 31, 1986							
DM 549,929,349							
of which secured by mortgages							
DM 64,862,733							
granted to subsidiaries and affiliates							
DM 346,747,875							
loans in accordance with § 89 AktG							
DM 1,587,531							
loans in accordance with § 115 AktG							
DM 178,500							
	2,219,157,080	2,187,175,720	26,738,783	—	14,932,057	4,364,661,960	2,219,157
	5,019,802,739	4,468,900,065	91,669,483	—	1,558,522,506	7,838,510,815	5,019,803
<b>Current Assets</b>							
<b>A. Inventories</b>							
Raw materials and supplies						568,384,356	583,213
Work in progress						1,027,177,914	980,523
Finished products and bought-in goods						929,740,647	783,614
						2,525,302,917	2,347,350
<b>B. Other Current Assets</b>							
Advance payments to suppliers						20,637,938	14,562
Trade accounts receivable						503,579,654	672,098
of which amounts due in more than one year	DM 9,012,122						
Trade acceptances						6,202,734	12,164
of which from subsidiaries and affiliates	DM 3,481,490						
acceptances discountable at German Federal Bank	DM —						
Cash on hand and deposits in postal checking accounts						7,347,886	1,405
Cash in banks						6,571,059,385	2,633,726
Securities						245,603,740	3,457,483
Treasury stock (par value DM 11,865,250)						16,729,807	21,235
Receivables from subsidiaries and affiliates						4,028,046,458	3,965,060
Miscellaneous other current assets						976,548,757	695,800
of which receivables in accordance with § 89 AktG	DM 191,130,000						
						12,375,756,359	11,473,533
						14,901,059,276	13,820,883
<b>Prepaid and Deferred Expenses</b>							
Discount on loans						202,013,350	—
Other items						1,871,671	1,965
						203,885,021	1,965
						22,943,455,112	18,842,651

## Stockholders' Equity and Liabilities

		Dec. 31, 1986	Dec. 31, 1985
		DM	Thousand DM
<b>Capital stock</b>			
Ordinary shares		1,200,000,000	1,200,000
Non-voting preference shares		300,000,000	—
Potential capital	DM 200,000,000	1,500,000,000	1,200,000
<b>Reserves</b>			
Legal reserve			
Jan. 1, 1986	DM 843,387,000		
Transfer of			
share issue premiums	DM 1,807,379,000		
amounts from the issue of option rights in 1986	DM 212,458,000		
		2,863,224,000	843,387
Reserve for treasury stock			
Jan. 1, 1986	DM 21,234,776		
Reduction corresponding to the disposal of treasury stock	DM 4,504,969		
		16,729,807	21,235
Other reserves			
Jan. 1, 1986	DM 2,093,179,345		
Transfer of net earnings	DM 190,000,000		
		2,283,179,345	2,093,179
		5,163,133,152	2,957,801
<b>Reserves for Special Purposes</b>			
Res. in accord. with § 52 subs. 5 of the Income Tax Act		109,700,000	125,400
Reserve for investments in developing countries in accordance with § 1 of the Developing Countries Tax Act		95,711,274	101,931
Reserve for price increases in accordance with § 74 of the Income Tax Directive		8,687,333	4,837
Reserve in accordance with § 1 of the Foreign Investment Act		1,447,200	2,895
		215,545,807	235,063
		5,242,000	6,867
<b>Allowance for Doubtful Trade Accept. and Accounts</b>			
<b>Undetermined Liabilities</b>			
Old-age pensions		4,464,440,000	4,074,800
Other undetermined liabilities			
Maintenance not performed during current year		9,100,000	20,400
Warranties without legal obligation		8,100,000	7,300
Other		6,518,081,925	6,369,236
		10,999,721,925	10,471,736
<b>Liabilities with an Initial Term of Four Years or Longer</b>			
Loans, secured by mortgages		30,000,000	60,000
Due to banks		6,100,000	6,100
Other liabilities		762,607,372	200,106
of which due to subsidiaries and affiliates	DM 762,510,000		
		798,707,372	266,206
Of which amounts due within four years	DM 31,831,935		
<b>Other Liabilities</b>			
Trade accounts payable		1,722,931,134	1,421,802
Due to banks		760,622,453	645,476
Advance payments from customers		123,312,286	76,847
Accounts payable to subsidiaries and affiliates		179,032,014	152,456
Miscellaneous other liabilities		1,168,027,431	1,163,904
		3,953,925,318	3,460,485
		73,633	120
<b>Deferred Income</b>			
<b>Net Earnings Available for Distribution</b>			
		307,105,905	244,373
<b>Contingent liabilities with respect to</b>			
trade acceptances	DM 1,242,474,299		
Contingent liabilities with respect to guaranty obligations	DM 874,738,299		
Contingent liabilities with respect to warranties	DM 191,183,549		
		22,943,455,112	18,842,651



# VOLKSWAGEN AG

## Statement of Earnings

Year ended December 31, 1986

	1986 DM	1985 Thousand DM
<b>Sales</b>	<b>41,133,547,596</b>	<b>38,920,555</b>
Increase in inventories	52,324,282	139,040
	41,185,871,878	39,059,595
Material, wages and overhead capitalised as additions to plant and equipment	205,308,456	127,695
<b>Gross Performance</b>	<b>41,391,180,334</b>	<b>39,187,290</b>
Expenditures on raw materials, supplies and other materials	27,814,587,556	25,483,465
<b>Excess of Gross Performance over Expenditures on Raw Materials, etc.</b>	<b>13,576,592,778</b>	<b>13,703,825</b>
Income from profit and loss assumption agreements	186,535,527	73,418
Income from investments in subsidiaries and affiliates	139,280,146	63,398
Income from other financial investments	12,655,202	3,971
Other interest and similar income	492,628,298	553,316
Gains from disposal of fixed assets and investments	31,429,305	31,645
Income from reduction of allowance for doubtful trade acceptances and accounts	1,625,000	450
Income from elimination of reserves for undetermined liabilities no longer required	255,803,975	142,573
Income from elimination of reserves for special purposes no longer required	23,367,109	24,001
Other income	1,688,754,780	1,034,360
of which extraordinary income	DM 56,818,183	
	<b>2,832,079,342</b>	<b>1,927,132</b>
	<b>16,408,672,120</b>	<b>15,630,957</b>
Wages and salaries	7,081,297,959	6,431,284
Social expenditures – compulsory	1,126,217,998	1,037,630
Pension expenditures and voluntary payments	528,112,692	432,563
Depreciation of fixed assets	1,543,590,449	1,664,452
Write-down of financial investments	14,932,057	459,067
Write-down of other current assets	51,599,336	63,489
Losses on disposal of fixed assets and investments	4,388,205	5,003
Interest and similar charges	65,704,046	48,196
Taxes		
a) on income, earnings and property	DM 1,080,819,947	1,632,857
b) other	DM 25,034,993	3,578
	1,105,854,940	1,636,435
Expenses under profit and loss assumption agreements	163,669,558	70,174
Additions to reserves for special purposes	3,850,346	4,837
Other expenses	4,234,238,236	3,300,991
	<b>15,923,455,822</b>	<b>15,154,121</b>
<b>Net Earnings</b>	<b>485,216,298</b>	<b>476,836</b>
Net earnings brought forward from previous year	7,384,638	5,537
	492,600,936	482,373
Transfer from reserve for treasury stock	4,504,969	–
Transfer of net earnings to other reserves	190,000,000	238,000
<b>Net Earnings Available for Distribution</b>	<b>307,105,905</b>	<b>244,373</b>

During 1986 pension payments amounted to DM 132,841,207; payments during the next five years will be 111, 127, 134, 136, 140% of this amount.

According to our legally required audit, the accounting, the financial statements and the annual report comply with statutory provisions and the Company's articles of association.

Wolfsburg, March 19, 1987

**VOLKSWAGEN AKTIENGESELLSCHAFT**

The Board of Management

Hanover, March 20, 1987

**TREUARBEIT Aktiengesellschaft**  
Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft

Prof. Dr. Forster  
Wirtschaftsprüfer

(independent auditors)

Siepe  
Wirtschaftsprüfer



# The Volkswagen Group in Figures 1977 – 1986

1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	
24,152	26,724	30,707	33,288	37,878	37,434	40,089	45,671	52,502	52,794	Sales (DM million)
13	11	15	8	14	- 1	7	14	15	1	Change on previous year in %
9,714	11,229	12,499	11,850	12,064	12,027	14,453	14,638	16,171	18,839	Domestic
14,438	15,495	18,208	21,438	25,814	25,407	25,636	31,033	36,331	33,955	Abroad
9,914	10,932	12,337	14,102	14,957	15,733	15,460	20,108	24,025	23,414	Export of domestic Group companies
5,634	5,970	7,398	8,733	12,398	11,346	11,812	12,864	14,698	14,127	Net contribution of foreign Group companies
2,240	2,393	2,539	2,495	2,279	2,120	2,127	2,145	2,398	2,758	Vehicle Sales (thousand units)
5	7	6	- 2	- 9	- 7	0	1	12	15	Change on previous year in %
811	895	901	788	738	672	750	708	722	838	Domestic
1,429	1,498	1,638	1,707	1,541	1,448	1,377	1,437	1,676	1,920	Abroad
2,219	2,385	2,542	2,574	2,246	2,130	2,116	2,148	2,398	2,777	Production (thousand units)
2	7	7	1	- 13	- 5	- 1	2	12	16	Change on previous year in %
1,561	1,569	1,558	1,499	1,410	1,381	1,413	1,474	1,635	1,654	Domestic
658	816	984	1,075	836	749	703	674	763	1,123	Abroad
192	207	240	258	247	239	232	238	259	282	Workforce at year end (thousand employees)
5	8	16	8	- 4	- 3	- 3	3	9	9	Change on previous year in %
133	139	157	159	160	158	156	160	170	176	Domestic
59	68	83	99	87	81	76	78	89	106	Abroad
1,697	1,990	3,100	4,279	4,851	4,892	4,858	2,782	3,388	6,366	Capital Investments (DM million) <sup>2)</sup>
49	17	56	38	13	1	- 1	x	22	88	Change on previous year in %
969	1,559	2,374	3,163	3,089	3,654	3,476	1,889	2,508	3,849	Domestic
728	431	726	1,116	1,762	1,238	1,382	893	880	2,517	Abroad
							2,021	3,217	2,738	Additions to Leasing and Rental Assets (DM million)
								59	- 15	Change on previous year in %
2,488	2,609	2,993	3,141	3,936	3,452	5,207	4,081	4,558	4,285	Cash Flow (DM million) <sup>3)</sup>
- 19	5	15	5	25	- 12	51	x	12	- 6	Change on previous year in %
419	574	667	321	136	-300	-215	228	596	580	Net Earnings/Loss (DM million)
144 <sup>1)</sup>	189	240	192	120	-	-	120	240	306	Dividend of Volkswagen AG (DM million)
144 <sup>1)</sup>	189	240	192	120	-	-	120	240	240	Ordinary shares (DM million)
									66	Preference shares (DM million)

<sup>1)</sup> Incl. bonus

<sup>2)</sup> Up to 1983 including additions to leasing and rental assets

<sup>3)</sup> Up to 1983 including depreciation on and disposal of leasing and rental assets



# The Volkswagen Group in Figures 1977 – 1986

Change  
1986/85

1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	in %	<b>Balance Sheet (Structure)</b> (DM million) December 31
<b>Assets</b>											
5,425	5,903	6,648	8,326	10,205	11,474	11,801	9,082	8,740	10,458	+ 19.7	Property, plant and equipment <sup>1)</sup>
530	410	726	839	414	449	464	544	574	1,751	x	Investments
							2,433	3,717	4,106	+ 10.5	Leasing and rental assets
5,955	6,313	7,374	9,165	10,619	11,923	12,265	12,059	13,031	16,315	+ 25.2	<b>Fixed Assets and Investments</b>
											Inventories and advance payments to suppliers <sup>2)</sup>
3,180	3,491	4,400	6,073	5,996	5,662	5,878	6,654	6,348	6,846	+ 7.8	
1,992	2,996	4,000	4,437	4,771	5,065	6,269	7,388	7,157	7,974	+ 11.5	Receivables and the like <sup>2)</sup>
3,837	4,364	4,781	3,971	2,822	1,953	1,815	5,253	4,326	9,210	x	Liquid funds, trade acceptances
560	1,016	1,123	1,151	1,129	1,290	2,528	1,588	3,960	364	- 90.8	Securities, treasury stock
9,569	11,867	14,304	15,632	14,718	13,970	16,490	20,883	21,791	24,394	+ 11.9	<b>Current Assets<sup>2)</sup></b>
15,524	18,180	21,678	24,797	25,337	25,893	28,755	32,942	34,822	40,709	+ 16.9	<b>Total Assets<sup>2)</sup></b>
<b>Stockholders' Equity and Liabilities</b>											
900	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,500	+ 25.0	Capital stock
3,161	4,224	4,625	4,757	4,990	4,911	5,227	5,165	5,929	8,573	+ 44.6	Reserves of the Group <sup>3)</sup>
											Minority interest in consolidated subsidiaries <sup>4)</sup>
199	192	373	205	198	223	281	320	266	409	+ 53.4	
4,260	5,616	6,198	6,162	6,388	6,334	6,708	6,685	7,395	10,482	+ 41.7	<b>Stockholders' Equity</b>
											Undetermined liabilities in respect of old-age pensions
2,048	2,341	2,749	3,107	3,475	3,626	4,235	4,739	5,029	5,279	+ 5.0	
2,200	3,244	4,152	4,326	4,232	4,570	5,597	7,417	9,343	9,387	+ 0.5	Other undetermined liabilities <sup>5)</sup>
4,248	5,585	6,901	7,433	7,707	8,196	9,832	12,156	14,372	14,666	+ 2.0	<b>Undetermined Liabilities</b>
											Liabilities payable within more than 4 years
1,450	1,284	1,273	1,161	1,053	847	1,283	992	947	1,518	+ 60.3	
1,032	708	457	466	712	990	1,004	1,411	1,291	1,282	- 0.6	1 to 4 years
4,355	4,776	6,592	9,378	9,351	9,485	9,925	11,570	10,569	12,451	+ 17.8	up to 1 year
6,837	6,768	8,322	11,005	11,116	11,322	12,212	13,973	12,807	15,251	+ 19.1	<b>Liabilities</b>
											Net earnings available for distribution (Volkswagen AG)
173 <sup>6)</sup>	189	240	193	124	38	-	124	244	307	+ 25.7	
											Minority interest in earnings to be distributed
6	22	17	4	2	3	3	4	4	3	- 18.9	
11,264	12,564	15,480	18,635	18,949	19,559	22,047	26,257	27,427	30,227	+ 10.2	<b>Outside Capital</b>
15,524	18,180	21,678	24,797	25,337	25,893	28,755	32,942	34,822	40,709	+ 16.9	<b>Total Capital<sup>2)</sup></b>
<b>Statement of Earnings</b> (Condensed) (DM million) January – December											
24,503	27,285	31,638	34,989	38,197	38,030	40,680	46,772	52,709	53,962	+ 2.4	Gross performance
12,746	14,099	15,835	18,238	19,752	19,573	20,852	23,824	26,623	28,656	+ 7.6	Cost of materials
6,810	7,656	9,113	10,782	11,779	12,069	12,371	13,227	13,913	14,747	+ 6.0	Labour cost
1,600	1,456	1,696	2,102	2,934	3,038	3,689	2,961	3,411	2,989	- 12.4	Depreciation and write-down
											Depreciation on leasing and rental assets
							1,060	1,259	1,491	+ 18.5	
1,503	1,692	2,081	1,400	848	543	580	1,368	2,124	1,489	- 29.9	Taxes
1,454	1,624	2,004	1,329	772	458	494	1,266	1,993	1,354	- 32.1	on income, earnings and property
1,425	1,808	2,246	2,146	2,748	3,107	3,403	4,104	4,783	4,010	- 16.2	Sundry expenses less sundry income
419	574	667	321	136	-300	-215	228	596	580	- 2.6	Net earnings/Loss
+248	+366	+443	+121	+104	-266	- 45	+ 62	+426	+321	- 24.6	Change in reserves

<sup>1)</sup> Up to 1983 including leasing and rental assets

<sup>2)</sup> Decreased by the amounts shown under liabilities as allowance for doubtful trade acceptances and accounts (In previous years additional items on the assets side were affected.)

<sup>3)</sup> Including stockholders' equity in reserves for special purposes and reduced by the loss as shown in the balance sheet of Volkswagen AG

<sup>4)</sup> Excluding shares in net earnings to be distributed

<sup>5)</sup> Including outside capital in reserves for special purposes

<sup>6)</sup> In 1977 for disposition by Annual Meeting of Stockholders, of which DM 144 million distributed as dividend (incl. bonus)



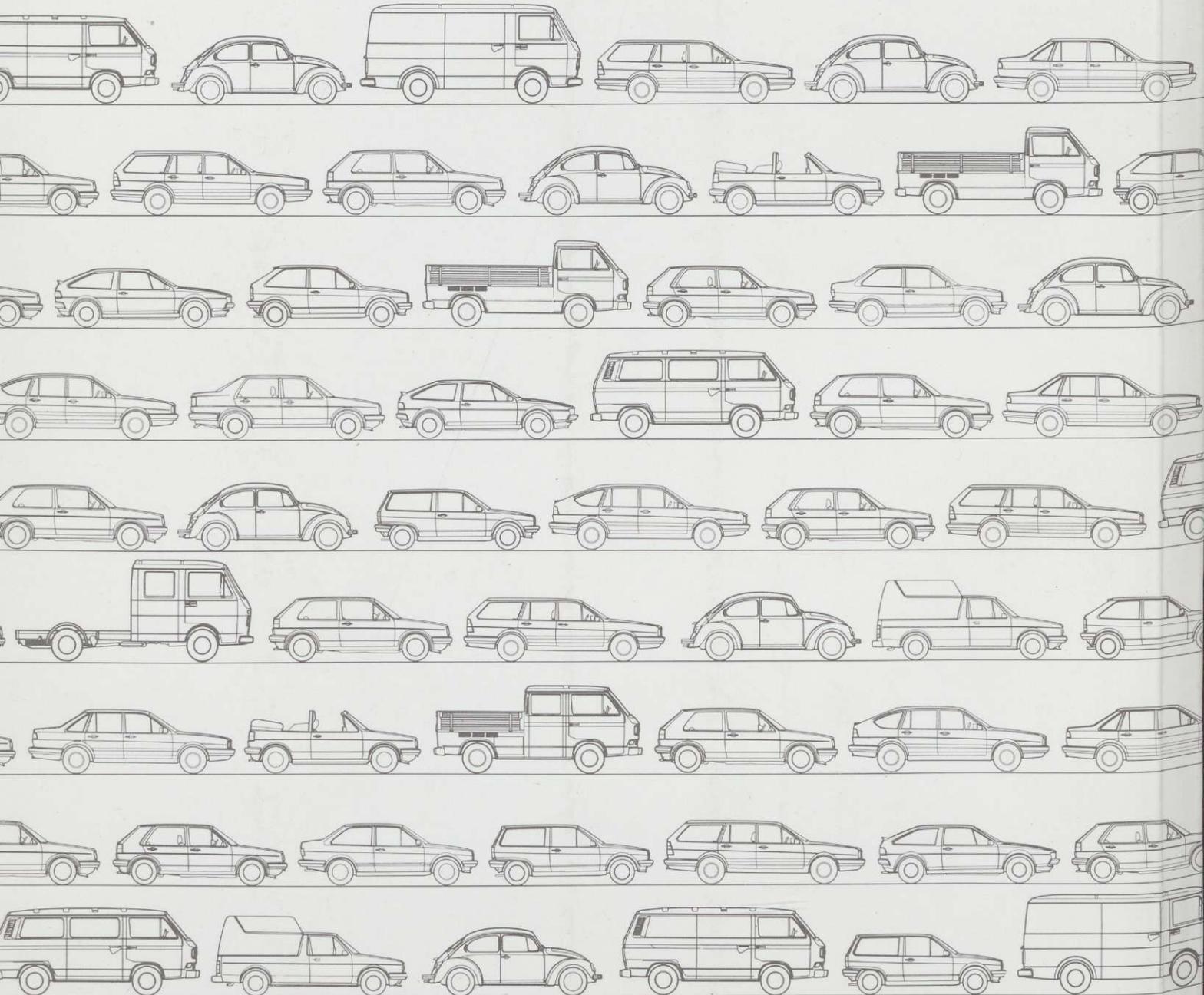






**VOLKSWAGEN AG**

Postfach  
D-3180 Wolfsburg 1  
Telephone (05361) 90  
Telex 09586-0 vww d



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